THE UNIVERSITY OF ALBERTA

THE LATIN AMERICAN FREE TRADE ASSOCIATION

BY

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A THESIS

SUBMITTED TO THE FACULTY OF GRADUATE STUDIES

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE

OF MASTER OF ARTS

DEPARTMENT OF ECONOMICS

EDMONTON, ALBERTA

FALL, 1970

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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled

THE LATIN AMERICAN FREE TRADE ASSOCIATION

submitted by Marcel Benoit in partial fulfilment of the requirements for the degree of Master of Arts

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ABSTRACT

In February 1960 the Latin American Free Trade Association was established. It includes today ten countries. It was the first step toward the establishment of a Latin American Common Market, planned for 1985. The main concern of this thesis is to describe the integration process during the first decade and to find out the most pertinent problems, discuss proposed solutions, analyse their effectiveness and in some cases suggest possible alternatives.

The basic conclusion of this study is that although the Latin American Free Trade Association has caused significant gains in intra-trade, economic progress in Latin America will depend on much more than the lowering or the elimination of trade barriers. The lack of dynamism of the LAFTA system suggests the need for a redrafting of the Treaty of Montevideo in order to include other forms of cooperation, particularly in the field of joint development planning, and thus to release the forces for economic progress.

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INTRODUCTION

The impulse toward economic integration was especially of interest in the sixties. In the economic literature many articles were written on this subject and in the economic decision-making processes there was a search for the optimal utilization of the integration instruments which were available to the policy makers.

Latin America, which always has been watched in its development efforts as a testing place of strategy and tactics, was also the very first developing continent to promote regional economic cooperation as a basic instrument for its development.

The institutionalization of this process occured by the creation of the Latin American Free Trade Association (LAFTA). This is probably the most ambitious experiment, in terms of geographical coverage and long-term objectives, among the attempts to integrate a group of developing countries.

LAFTA was established by the Treaty of Montevideo and today includes Argentina, Brazil, Chile, Columbia, Ecuador, Paraguay, Peru, Uruguay, Venezuela and Bolivia. In its membership LAFTA includes over 90 percent of Latin America's area, population, and gross national product. The Treaty provides for acceleration of economic development through a gradual elimination of barriers to intra-zonal trade and the gradual establishment of a Latin American Common Market.

There is a belief among the Latin American countries that greater economic cooperation among them would promote development and growth. The freeing of trade among a group of nations has proved in other parts

of the world - expecially in Europe - to be a pratical way to expand the market, to create economies of scale and external economies and to improve productivity. Our main concern in this thesis is to answer the following question: has the trade - liberalization program until now brought benefical effects for the economies of the member countries and would it not be necessary in the evolution of the integration process to implement economic planning?

In the first chapter we want to analyse the socio-economic data of Latin America and the area's historical evolution from a disintegrated continent to an unified zone. Chapter two considers the different aspects of customs union theory and its applicability to the developing countries in general and Latin America in particular. The following chapter puts the main stress on the Treaty of Montevideo, the basic charter of the Latin American Free Trade Association. The fifth chapter will made a detailed survey of the results obtained by the integration process itself. By means of a statistical analysis we will try to clarify the changes in the trade pattern of Latin America.

Knowledge of the static effects of an integration scheme only brings a limited view of the market-broadening process, and we will oblige ourselves to consider the dynamic aspects of LAFTA. We will briefly examine the most essential problems in such fields as industrialization, transport policy and financial and monetary matters.

Finally in the last chapter we try to formulate the main conclusions of the thesis to describe the prospects for LAFTA in its future dimension.

The whole analysis is an attempt to clarify the economic policy that LAFTA applied during the first decade of its existence and to formulate some alternatives for the future.

The statistical data that will be used are the most recent figures we could obtain in the documents of LAFTA, the Economic Commission for Latin America, the Organization of American States, the International Monetary Fund and other United Nations Organizations.

CHAPTER I

TOWARD ECONOMIC COOPERATION

IN LATIN AMERICA

In order to be able to understand the evolution of economic integration in Latin America it is necessary to analyse the historical background of this movement and the framework in which it took place. Therefore we describe in this chapter the disintegration and the re-unification of Latin America.

The present socio-economic structure of Latin America reflects the characteristics of every stage of civilization the continent experienced. Generally, the stages of development in Latin America are:

1. The pre-Columbian period
2. The Spanish-Portugese colonisation
3. The political independence of the different nations.

The pre-Columbian phase - the era before the discovery of America in 1492 - is still present in the primitive life of the tribes in Bolivia, Brazil, Columbia and Argentina. More than 20 percent of the population in Latin America is living in Inca-type communities, maintaining ancient social traditions and institutions as in the days of the Inca Empire.

Next in terms of historical evolution come the great feudal estates or "latifundios" which had their glorious days during the Spanish-Portugese colonisation and still dominate the agriculture of the continent. In the beginning of the 16th century "the conquisitadores" conquered the region and ruled it economically by mercantilial principles. Consequently there was first of all a wholesale exhaustion of precious metals and secondly an extensive exploitation of agriculture

with the purpose of promoting the production of export-oriented cash-crops.

Extremely relevant for this period of time was the unity and cohesion which characterized Latin America. Indeed, the continent - exception made for Brazil - was submitted to one authority; there was only one dominant language, religion, culture and one socio-economic policy. As a consequence of common cultural elements and socio-economic structure, all Latin America had a similar way of life.

The economic development itself was concentrated in the new administrative centres and harbors. The emerging industrialization accompanied by rapid urbanization created "growth-poles" and provoked the rise of new social groups containing industrial entrepreneurs, professionals, white-collar workers, etc. This evolution associated with the process of development marked the beginning of an awakened nationalism. The weakening of the Spanish monarchy in the first half of the 19th century reinforced this nationalism and led finally to the breakdown of Latin America into twenty republics.

L. Baeck writes concerning this phase of Latin American history: "Au début du XIX siècle la monarchie en Espagne, s'est très affaiblie suite aux guerres coloniales. L'insurrection est avant tout un phénomène urbain. C'est chaque grande ville qui développe son propre patriotisme et n'entraîne pas dans son mouvement que ses propres campagnes. De là, la multiplicité des foyers insurrectionels, où se

formera le long chapelet de metropoles du Chili au Guatemala".[1]

Thus the process of disintegration in Latin America was not influenced by the geographical data of the continent but was the result of a set of political events in the 19th century. A typical example is Brazil. Indeed the geographical variety of this country could have led to the formation of different nations. The political intervention of the Portugese monarchy eliminated however the regional disputes between the North and the South and strengthened the unity of the country. While the Spanish Governors were expelled by the "Liberadores", who were creating their own nations, Pedro I came from Lisbon to Rio de Janeiro, proclaimed the Brazilian Empire and reinforced the links between the Amazone, the Minas Gerais and the Northeast regions.

After the independence movement and until 1930 the characteristic structure of export and import trade and the financial links with the industrial countries were established. The growth of food and raw material producing activities catering to the needs of the industrial countries meant that the ties of Latin American nations to one another became much weaker than those to Europe and North America. The inflow of foreign capital tended to bring about similar results, creating new industrial and new commercial links to parent enterprises located outside the continent, but very few connections between one Latin American country and another.

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1. L. Baeck, Intégration Economique et Structures Socio-Economiques en Amérique Latine (Louvain: Kul, 1965), p. 2

Also the transport policy of the different nations was "outward-looking". The governments were not at all concerned with the development of inland transport facilities but their aim was the creation of fast communications between the raw material producing centers and the export harbours and between the latter and the industrial countries. As R. Almeida pointed out: "Il s'établit un système de transport fait pour assurer la pénétration du continent et son drainage vers l'extérieur".[1]

In order to protect their interior economic activities the countries started to apply their own customs duties and they created their own monetary systems.

The overall result was that the ties between the nations became looser and looser while their economic dependence on the industrially advanced countries increased. The growing reaction against such dependence is not necessarily accompanied by efforts of integration or reintegration. Indeed the attempts of the Latin American peoples to destroy the last vestiges of colonial or semi-colonial dependence are frequently associated with a resurgence of national feeling and patriotism rather than of continental cooperation.

Contempory patterns of nationalism in Latin America are greatly influenced by widespread aspirations for a better life and a greater economic progress. Nationalistic sentiments have been continually invoked

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1. R. Almeida, L'origine, la structure, le fonctionnement et les problèmes de l'ALALC (Paris: Tiers Monde, July 1965), p. 61

by the rising middle classes as they attack the close association of the traditional leading class with foreign interests. Labour interests have likewise frequently themselves been in conflict with foreign companies.

The new nationalism has therefore given rise to strong protectionism as a means of securing economic independence and freedom from foreign domination. Programmes of economic development have been formulated in nationalistic and protectionist terms, favouring the import-substitution. This policy has not produced the expected benefits. It has not resulted in the lessening of foreign dependence that was one of its basic objectives.

Let us explain this evolution. In situations in which foreign exchange is insufficient imports of consumer goods have been limited. But, since the internal demand for these products was not decreased, nor was the importation of machinery necessary to produce them reduced, conditions were created which made it possible to produce them within the country. Apparently protection favoured national industry but the traditional foreign connections overcame the protectionist tariff and the policies of restriction of imports. Far from disappearing they increased. Goods which had previously been imported began to be produced domestically, but this meant not only greater imports of equipment and machines but also increasing financial costs in foreign exchange which constitute now an overwhelming burden in many countries. This is due to the fact that a large part of this domestic industry is foreign-owned and that many products under licence or technical assistance contracts which are

paid in various ways, but also the fact that public and private financing from abroad was necessary in order to accelerate industrialization and investment in infrastructure. Thus the process of import substitution has resulted, on the one hand, in greater vulnerability of the Latin American nations' balance of payments and, on the other hand, in foreign financial commitments which in some countries represent a considerable proportion of current foreign exhange receipts.

Another characteristic feature inherited from this period is the establishment of a very strong and active central state. The belief that the interests of the state must take precedence over all private interests, since only the state can interpret and defend the interests of the nation as a whole, forms a complementary element in Latin American nationalism. These ideas of state and nation do not blend readily with concepts of regional or continental solidarity.

As a result of the process just outlined we can say that the most important obstacles to regional integration are the strength of the forces of nationalism and the economic dependence of the countries. While these forces remain powerful factors in Latin American regional politics, it is possible to discern the simultaneous growth of regional cooperation.

Already in the first decades of the 19th century there were several actions from Bolivàr, Miranda and San Martin to realize the Latin American unity.

The most prominent personality was Bolivar who must be considered as the father of the idea of Latin American cooperation. He also was the creator of Gran Columbia - a union among Venezuela, Ecuador and Columbia - the first concrete realization of the integration idea.

In the first years after the great depression there was a new attempt to create a stronger economic cooperation. Argentina, Bolivia, Chile and Peru concluded trade agreements. The final results were however disappointing.

The real start of economic cooperation began in the early 1950's when the United Nations Economic Commission for Latin America (ECLA) became preoccupied with the decline of intra-regional trade that was taking place at a time when general external conditions necessary for the region's development had also started to deteriorate.

The concept of regional cooperation based on trade preferences as a means of accelerating Latin American economic growth appeared for the first time in studies eleborated in 1956-57 for the ECLA Trade Committee. From this moment on ECLA devoted many studies to the relationship between the enlargement of the size of the market and economic development.

When the idea of regional cooperation was fully discussed for the first time, the concepts about integration were far from clarified. The debate ranged from proposals for a common market, a free trade zone or sub-regional groupings to a proposal for continental integration. However, the continuous deterioration in the internal and exter-

nal position of Latin America, the absence of any coherent and promising policy toward the region on the part of the industrial countries, and the signature of the Treaty of Rome in March 1957, drove the participants in the Organization of American States (OAS) meeting in 1957 to approve a resolution stressing "the advisability of establishing gradually and progressively, in multilateral and competitive form, a Latin American regional market".[1]

It was also recommended that ECLA together with OAS should work out specific proposals on the structure and the institutional forms of such a regional agreement.

In February, 1958, the ECLA working group on the common market had already elaborated a set of principles and basic recommendations for an arrangement covering the whole continent:

1. Membership in the regional market must be open to all independent Latin American countries.
2. Eventually it might be desirable to establish a single customs tariff vis à vis the rest of the world.
3. Ultimately the regional market should include all goods produced within the area, but this objective should be achieved by stages.
4. Less advanced countries of the area should be accorded special treatment in regard to trade concessions and investment to enable them to share fully in the benefits of the regional market.

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1. Final Act, Economic Conference of the Organisation of American States (Washington: Pan American Union, 1957), p. 66.

5. Member countries should have the right to impose temporary import restrictions on each others' goods if balance of payments or other difficulties arise.
6. Rules of competition should be established to prevent the export trade of one member country from harming the activities of other participants in the regional market.
7. The regional market should be provided with an effective system of external development aid and technical assistance.
8. An advisory body should be constituted by the member governments and a system of arbitration established.
9. During the formation of the regional market, the active cooperation of Latin American free enterprise should be enlisted.[1]

Concrete proposals were elaborated around these basic principles and presented at the ECLA biennial Conference in Panama in May 1959. They provided for the establishment of a free trade zone to be transformed progressively into a customs union. The ECLA working group recommended that the reduction of tariffs and other restrictions in intra-regional trade be implemented in two stages. During the first stage, lasting for ten years, there would be a substantial reduction but not complete elimination of tariffs and restrictions on trade, with the scope of the reduction depending upon the commodity category involved. During a second stage of undefined duration, the removal of all trade

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1. United Nations, Economic Commission for Latin America. The Latin American Common Market (New York, EICN.I 17/590), 1959, p. 41

restrictions within the area would be completed and a common market would be established according to procedures determined by negotiations to take place before the end of the free trade zone stage.

The proposals were never implemented. A few weeks before the ECLA Conference was to consider recommendations concerning the Latin American Common Market, Argentina, Brazil, Chile and Uruguay drew up a detailed draft for a sub-regional free trade zone.

The four-country draft submitted for information at the Panama Conference stressed the urgency of expanding trade among the sponsoring republics and expressed the hope that the proposed arrangement would represent a contribution to subsequent broader regional integration of trade. It indicated the willingness of the authors to negotiate a regional common market agreement as soon as details could be worked out. In the meantime it invited other countries to join the proposed free trade zone to be established within a ten-year period. The draft envisaged trade liberalization by means of annual 8 percent tariff reductions for the intra-zonal exchange of goods. After the first three years, 25 percent of this trade would be totally freed; after six years, 50 percent; after nine, 75 percent; and not less than 80 percent at the end of the period. It also provided for the gradual standardization of export and import policies with respect to third countries and the application of the most-favored-nation clause to all members of the zone. Escape clauses incorporated in the draft permitted member countries to impose quantitative restrictions on products whose domestic production was of major importance to the national economy or was subject to special government support measures.

The simultaneous appearance of two concrete but competitive proposals forced Latin American governments to define speedily their respective positions and the course to be followed. Debates at the Panama meeting made it clear that the southern region project had one basic advantage that at the same time represented a direct threat to the regional common market approach. The southern free trade zone could be established before the common market. Should the remaining republics establish a similar sub-regional arrangement in the northern part of Latin America and try to merge with the southern group later on? Was there any way to reconcile the two projects? These were the open questions Latin American policy-makers and economists discussed in the fall of 1959.

The fact that the southern project left adherence to the free trade zone open to other Latin American republics seemed to offer a way out. On the initiative of its original sponsors, participation in the four-country project was somewhat extended by formal invitations to Bolivia, Paraguay and Peru. Even then the composition of the expanded group strongly suggested a sub-regional arrangement. Willing to prove that this was not the case, the southern group invited Mexico and Venezuela to send observers to a formal government conference convoked at Montevideo in September 1959 for the purpose of preparing a final draft of a free trade zone treaty. Both countries accepted willingly and Mexico's President declared that his country would participate in the free trade zone. By that time, the earlier treaty draft had been expanded to include various important features of the Common Market program elaborated

by the ECLA working group. The new version of the free trade zone agreement embodied detailed provisions on the treatment to be granted less advanced countries. Its reciprocity and escape clauses had been somewhat clarified and redefined and the chapter on trade expansion and economic complementarity considerably strengthened. With very few changes, however, the final draft of the Treaty followed the main operative parts of the southern project governing the mechanisms of the free trade zone, the timing of trade liberalization, and similar decisive points.

The seven negotiating republics - Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay - agreed that adherence to the Treaty would be open to all republics in the region and that on the expiration of the twelve-year term, the members would adapt the Treaty to make it applicable for the new stage of economic integration. Thus the final formula known as the Montevideo Treaty has all the characteristics of a compromise between forces pressing for wide regional integration and those preferring a free trade area approach.

The fact that ECLA experts helped to elaborate two seemingly contradictory economic cooperation schemes both of which were placed on the table at Panama makes one wonder whether this was purely accidental. At least some observers of the Latin American scene have maintained that the parallel appearance of two proposals was the result of a maneuver by R. Prebish, Executive Secretary of ECLA. Left with only a common market scheme, the Latin American republics might have quibbled over its details for an indefinite period of time. Moreover, the sudden appearance of a southern sub-regional scheme conjured up for all the in-

terested parties the spectre of a possible economic and political division of Latin America in two blocs.

Whatever the role played by ECLA, the Latin American Free Trade Association was established less than a year after the Panama Conference. The immediate adherence of Peru and Mexico and that of Ecuador and Columbia shortly afterward eliminated an economic split between northern and southern Latin America and resulted in a long-expected unity.

The economic illness of Latin America is not determined by circumstantial factors. It is the result of internal and external bottlenecks and the incapacity of the present economic system to maintain a rate of development with the growth of population.

Some economists think that family-planning and birth-control will have a benefical effect on the realization of a greater growth-rate of the income per head. They forget however, that the concrete application of these methods will meet fundamental obstacles.

There is first of all the factor that most of the Latin American republics are Roman Catholic countries. The laws of this institution do not permit all the methods that technocrats want to apply in order to control the population explosion. On this side of the picture is there a black perspective.

On the other side we must accept that the image of the child in the developing countries is totally different than in the industrial countries. Children are comidered in the family as labor-force, wage - earneis. Limitation of the family-size is equal to poverty, in the mind of the traditional society.

Finally in my opinion it is a fact that we do not have to fight population explosion for the purpose of itself. It is the task of the economists to increase welfare and to find the necessary resources for

the improvement of the education system. By improvement of the welfare of the population, the population problems will find a solution by itself.

I. Internal Bottlenecks

Between 1950 and 1967 considerable economic gains were made in Latin America and gross domestic product per head rose at an annual rate of 1.8 percent. This growth in income per head is lower than for industrialized countries but exceeds average growth in Africa and South Asia.

During the period 1950-1967 different countries in the region grew at annual rates of more than 2.5 percent - Mexico, Peru and Venezuela while Uruguay saw his income per head decline during those years. The average per capita income in 1967 for Argentina, Brazil and Mexico was $470 as compared to an average of $389 for Chile, Columbia, Peru, Uruguay, Venezuela, Bolivia, Ecuador and Paraguay and $380 for all Latin America.

The increase in the population is however phenomenal. Annual population growth rates have increased in Latin America from 1.9 percent during 1920's and 1930's to 2.3 percent during the 1940's, 2.8 percent during the 1950's and 2.9 percent during the 1960's. Countries with the highest growth rates of income per head during 1950-1967 also had among the highest population growth rates, but in nearly all countries

CHAPTER II

THE ECONOMIC PROBLEMS

OF LATIN AMERICA

the high rate of population growth hampered efforts to improve social services and educational facilities and to reduce unemployment rates.[1]

There are no indications that the income distribution was improved over the period 1950-1967. The social contrast is striking. While 50 percent of the population accounts for approximately two-tenths of total personal consumption, at the other end of the scale of distribution only 5 percent of the inhabitants of the region enjoy nearly three-tenths of that total.[2] A tax reform will be necessary as a means of reducing inequalities in income and wealth. It would be impossible to obtain the cooperation of the people in programmes for economic development in the absence of a fair sharing of burden and a sense that such burdens were being graduated according to the capacity to bear them.

The prewar migration to the towns has continued. Urban centers which in 1950 included 39 percent of Latin American population accounted for 54 percent in 1967. Between these dates their population grew more than three times as fast as the rural population. The urban population was growing at rates of 5 à 6 percent per year, the per capita income in urban centres rose more than the national average. This fast urbanization has its repercussions for the agricultural sector. One of the essential tasks for the agrarian policy must be to speed up the growth of rural production available for the cities.

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1. L. Pearson, Partners in Development (New York: Praeger Publishers, 1969), pp. 239-240.

2. United Nations. Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America (New York E/CN 12/680/Rev 1), 1963 p. 5.

Given the present land-holding in Latin America and the corresponding economic, technological, social and political circumstances in agriculture, agrarian reform will be indispensable. It is also idle to talk about integration so long as the forms of land tenure remain as incomptatible with economic progress. Land reforms accompanied by the breaking of the political control of the landed aristocracy is a necessity for industrial growth.[1]

Manufacturing has been in Latin America the most rapidly growing sector, expanding by an average of 6 percent per year.

In the first period of the industrialization process the main stress was on the development of the consumer goods industries. These industries are found in all countries of the continent, supplying in many cases virtually the whole range of domestic requirements in the products concerned.

Capital goods industries on the other hand, are still in their infancy, although they have by now attained some significance in Argentina, Brazil and Mexico. These countries account for 62 percent of the total American cement production, 83 percent of the crude steel and 67 percent of the electric energy production.[2] In the case of Brazil some

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1. O. Sunkel, National Development Policy and External Dependence in Latin America, The Journal of Development Studies, VI No 1 (London: Frank Cass, October 1969) p. 35.

2. G. Salado, Le developpement et l'intégration de l'Amerique Latine, Economie Appliquée, XXII - No 3 (Geneve: Droz, July 1969) p. 375.

of the two thirds of the machinery and equipment used are manufactured in the country itself, the proportion is somewhat smaller in Argentina and much smaller in Mexico.

Some progress has been made in recent years in durable consumer goods which has been growing rapidly in Argentina, Brazil, Chile, Columbia, Mexico, Peru, Uruguay and Venezuela. In all these cases little or no provision has been made for regional trade. There is a pure waste of capacity as well as inefficiency and duplication of industries. The reasons are clear: all these industries are built up behind the walls of national protection without regard to the prospects for long-run viability or the needs and resources of the continent as a whole.

One of the basic characteristics of the Latin American economy is its structural dualism. The countries involved in the formation of the free-trade area have extreme disparities in their industrialization pattern. As mentioned some countries (Argentina, Brazil, Mexico) are relatively developed while others are far behind in the process of industrialization. Even in the national economies itself there are great problems of regional disparities. The harbors, the mining and cash-crops centers are high-income areas while the other regions are condemned to backward areas. A danger in the economic integration is now the possibility that existing industries will attract new activities and that the less developed regions will lose some of their manufacturing facilities.

Early enthusiasm for industrialization was partly based on the expectation that it could absorb large amounts of labor. Policymakers confronted by a labor force growing at 2.5 percent per year have been chief-

ly preoccupied with measures to generate more urban employment. Unfortuneately manufactory employment for the whole of Latin America has grown less rapidly than the labor force at a rate around 2 percent per year and has absorbed less than 15 percent of the new workers. In contrast the third sector - services - struggle with a labor surplus due to the overpopulation in the cities. As Chenery[1] pointed out it is also the only sector with decreasing productivity. People do work but with a very low productivity. This disequilibrium in the employment-situation of Latin America is the consequence of structural dualism of the economies together with low labor absorptive capacity in industry and population explosion. To find a solution for this great problem will be one of the major items for Latin American integration.

Postwar inflation has seriously hampered economic policy-makers in most Latin American countries. In Argentina the inflation problem has been encouraged by an annual rise of 22 percent in the official rate of exchange and significant increases in money wages. Extremely high inflation in Brazil is the primary problem of a net deficit in public income and expenditure because of the pressure to develop and the dependence on one export-product. Chile and Uruguay are also suffering from inflationary pressures related to the long process of economic stagnation and instability, social pressures, balance of payments problems and narrow markets.

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1. H. Chenery, <u>Toward a more effective Alliance for Progress</u> (Washington: International Development Agency, March 1967), p. 3.

There seems however no clear cut in the relationship between the rate of inflation and the rate of development. The high-inflated countries - Argentina, Brazil, Chile and Bolivia - tended to stagnate; some of the low-inflation countries (Venezuela, Ecuador) seem to be developing fast. For the other Latin American countries there is a mixed picture.

The fact that the price structures of individual countries change at different rates poses serious dificulties for cooperation among them. Also the fundamental differences of opinion about inflation and inflationary policies create bottlenecks for the integration movement. These differences of opinion has polarized around two major schools namely: the monetarists and the structuralists. Both schools are aware of all the variables but each emphasizes the overheading importance of some of them and consequently ends up with different explanations and policy settings. We will try to analyse briefly the main ideas of each school:

1. The Monetarists

They stress the overwhelming adverse effects on development caused by the harsh inflations accompanied by expansions of money supply amounting to 20 to 30 percent per year. They attribute to inflation all the economic vice that spread over the Latin American economies. As Campos writes: "The monetarists hold that inflation has ceased to promote development and in fact has become incompatible with it; even those countries that managed to have inflation and development are now facing

an acceleration of inflation and a deceleration of development".[1]

The monetarists state further:

1. That inflation contributed to the relative deterioration of exports. It diverts exports to domestic use, raising their prices and worsening the foreign exchange situation of the economy and weakening the capacity to import. The expansion of imports following the jump of demand aggravates the situation. That creates an overvalued currency which when devaluated leads to intensify the inflation process. The effect on foreign investment goes in the same direction because of the uncertainties involved.
2. That private savings have deteriorated because of the inflation effects on real income and on corporate costs; and even these are invested in the wrong least productive directions.
3. That inflation must be stopped, before it degenerates into explosive tensions and the only effective method seems to be the curbing of excess demand through a prudent combination of monetary and fiscal policies, supplemented by inter-national financial assistance.

In their opinion the economy will thus readjust through checking the expansion of demand that has followed the credit-expansionary policies.

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1. R. A. Campos, "Two Views on Inflation in Latin America", in A. O. Hirschman, Latin American Issues (New York: The Twentieth Century Fund, 1961), pp. 69-71.

2. The Structuralists

The structuralist disagree with the monetarists as to the causes of the inflation and of the efficacy of tightened credit, fiscal retrenchment and the elimination of direct controls in checking it. They see inflation and money supply changes as an expression of the real factors acting over the economy. Inflation is a symptom of the disease whose roots are much deeper. The cure of inflation is not by fighting the symptom but by curing the real reasons of the illness. To them, inflations in Latin America are a manifestation of a war among various interests. The generation of inflation is to a large degree a psychological and sociological phenomenon. Government monetary policy provides that enviroment for this economic struggle since the introduction of monetary restraint would bring cost-price spiral to a halt only at the cost of reduction of employment, output and profits, all of which will create discontent among powerful groups.

Therefore the structure provides the real explanation of the inflation. The structuralists want economic and social reforms to give greater flexibility and balance in the productive structure and a deeper sense of social cohesion. Among the structuralists there is however a difference in opinion concerning the realization of the reform-proposals. There are the theorists who would work within the social establishment to reform it and those to whom a socialist revolution is necessary. As D. Felix pointed out: "The main difficulty les not, however in devising academic solutions which could reconcile stability with economic growth,

but in achieving the social consensus which would permit such solutions to be implemented and ... that is perhaps one of the chief obstacles to a joint monetarists-structuralist resolution of the inflation problem."[1]

These opinions are also reflected in the approach of the common market formation. For the monetarists the reasonable approach for a fight against inflation in the framework of a common market is to attempt coordination by participating countries in their monetary and fiscal policies in the hope of holding disparities to at least manageable proportions. For the structuralists, monetary and fiscal policies should be subordinated to the objectives of correcting the basic maladjustments. Therefore there is a need on a structural socio-economic reform which only can be realized by a supra-national planning.

As we can see the movement toward the Latin American Economic Integration is faced with a broad spectrum of problems in the individual countries and the fact cannot be overlooked that these problems and all integration efforts directly affect one another.

II. External Bottlenecks

The difficulties that Latin America meets in its development process can be explained on one side by the inability to overcome domestic obstacles but also on the other hand by severe problems arisen in the foreign trade. Latin American countries have encountered increasing

1. D. Felix, "An alternative view of the Monetaris - Structuralist Controversory", in A.O. Hirschman, *op. cit.*, p. 93.

difficulties in obtaining the export earnings required to finance the imports they need for development.

From 1950-1961, while the volume of exports of the industrial countries more than doubled, those of Latin America advanced only 53 percent. During the first half of the fifties the quantum of exports of Latin America was maintained, on the average, at the same level as in the early postwar period but their purchasing power increased by 18 percent. During the period 1955-1961 the volume of Latin America's exports was 34 percent greater than in the preceding period, but in consequence of the deterioration of the terms of trade their purchasing power increased by only 15 percent; that is the negative effect of the terms of trade nullified nearly 60 percent of the increment in the volume of exports. In the over-all period 1950-1961 the terms of trade deteriorated sharply; the decline was 21 percent. The losses due to this deterioration were roughly 1,000 million dollars for the region as a whole.[1]

The combined result of the slow growth in the volume of exports and the deterioration in terms of trade was that the purchasing power of Latin American exports in terms of goods imported rose by only 23 percent from 1950-1961, or only by well under 2 percent per year. This rate of

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1. United Nations, Economic Commission for Latin America, _The Economic Development of Latin America in the post-war period_ (New York, E/CN 12/659), 1964, pp. 3-6.

growth of external purchasing power was not sufficient to finance the expanding volume of imports needed to sustain the domestic growth rate of over 4 percent that was planned in most of the countries.[1]

During the same period Latin America made intensive use of external financing through autonomous capital movements and compensating loans which have led to a heavy external debt.

The total amount of external debt outstanding in Latin America as a whole doubled in 1950-1955 and more than doubled again in 1955-1961. At the end of 1962, the amount of such debts outstanding was estimated in the region of 9 billion or 11.5 billion including arrears, obligations to the International Monetary Fund (IMF) and other liabilities.

At the same time a very large proportion of outstanding debt falls due for repayment within the next few years. Of the total indebtedness of Latin American countries on public account outstanding at the end of 1962, including commercial arrears 65 percent was due for repayment during the period 1963-1967.[2]

In a recent study the Latin American Institute for Social and Economic Planning made a prospective analysis of the commercial relations of Latin America with the rest of the world. It estimated a "trade-gap" of $4.5 billion in 1975 on the assumption that the total output of Latin America could increase at an average annual compound rate of 6 per-

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1. UNCTAD, Economic Growth and External Debt. A statistical Approach Presentation, (Genève, E/COF/46/40) March 1964, p. 4.

2. UNCTAD, Economic Growth and External Debt. An Analytical Framework (Genève, E/CO/46/84), March 1964, p. 38.

cent during the 1960's seen as a whole.[1] The deficit is expected to increase in 1980 to a total amount of $8.3 billion.

The projected gap for 1980 provides an indication of the order of magnitude of policy measures required to deal with the mounting trade problem of Latin America, on the assumption that the trade structure with the industrial countries maintain its present characteristics.

It seems clear now that the individual impact of instruments as export stimulation, import substitution and savings promotion is decreasing in the action to narrow the existing trade-gap.

In the present Latin American economic conditions it will be necessary to formulate a program that affects all the variables which influence the external trade and internal savings. There is a need for a suitable expansion of trade and aid but also for a reorientation of the foreign trade pattern and domestic policies of the nations as well.

The question is how far can the gap be bridged by adjustment of aid and trade policies. In the aid programmes there are two points to retain:

1. Given the anti-inflationist policies of the USA, Canada, Europe and Japan there will be a further decrease in their over-all aid programmes.

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1. Latin American Institute for Social and Economic Planning, La Brecha Commercial y La Integracion Latinoamericana (Mexico: Siglo Veintiuno, 1967), p. 67.

2. The Latin American countries proclaim an anti-aid policy given the apparent ineffectiveness of the programmes.

Concerning the trade-policy we see that the efforts of the Latin American countries to enlarge the market opportunities for their exports encounter the opposition of agricultural and industrial producers in the developing nations.

Given the stagnation in the aid programmes and the unwilligness of the industrial countries to change the world trade pattern, the Latin American countries are obliged to face the other alternative of regional economic cooperation.

It will be idle to suppose that such a policy provides a perfect substitute for improved access to the market of the developed countries. It will even not diminish the need for political, economic and social reform. But the creation of internal new trade channels and the coordination of the different economic policies gives Latin America a chance to lessen his foreign dependence and to accelerate the attainment of the development goals for the region as a whole and for each country in particular.

CHAPTER III

THE NEED FOR INTEGRATION

In this chapter we try to analyse the links between the traditional customs-union theory and economic development and to apply our findings to the Latin American Free Trade Association (LAFTA).

As B. Balassa formulates: "the expression 'the traditional theory of customs union' is used to refer to a series of writings from Viner to Lipsey that dealt with the question as to how the desirability of customs unions can be determined".[1] Following J. Viner the test has been whether a customs union is, on balance, trade creating or trade diverting. Trade creation refers to the increase of trade among the member countries of the customs union and the trade diversion to the reduction of trade with the outside world, both following the removal of internal trade barriers in a union.[2] We want the union to lead to an increased volume of world trade and trade is more likely to increase if the countries are initially competetive. Then the result of the union will be that its low-cost producers will supply the entire internal market and its high-cost suppliers will be forced into new activities which will lead to a complementarity in production within the union and for the world as a whole. Likewise if the region was a high tariff area relative to the rest of the world it would confer greater gains than if the region's tariffs were initially low.

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1. B. Balassa, Economic Development and Integration, (Mexico: Cemla, 1965), p. 19.

2. J. Viner, The Customs Union Issue, (London: Allen and Unwin, 1950), pp. 41-45.

R. Allen analyse these ideas for the integration process in the developing countries. Although he recognizes that the given criteria were designed specifically for integration among industrial countries, he feels that they are also appropriate to developing economies as well. In addition, the author gives a list of other conditions where presence is necessary to the achievement of significant increases in welfare:[1]

1. The nations must want to improve their resource allocation and to achieve economies of scale and not just desire to protect their domestic industries.
2. Benefits will be greater if there are not great disparities in stages of economic development or structure of the national economies, dominance by one or two countries economically, or an extremely low level of economic development. In Myrdal's terms[2] this would be to say that the "backwash effects" from the expanding area, which are those that harm the surrounding areas, outweigh the "spread effects" which are those that aid the growth and development of the surroundin area. This situation occurs because the poorer nations in the area have to purchase the high cost manufactured goods of the more advanced nations in the union and are forced to continue as primary product suppliers with no chance to industrialize. And if all count-

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1. R.L. Allen, "Integration in Less Developed Areas", Kyklos XIV, (Basel: March 1961), pp. 318-36.

2. G. Myrdal, Rich Lands and Poor, (New York: Harper and Brothers, 1957), pp. 27-33.

ries are at a low level of development they are going to have to industrialize and increase their agricultural productivity starting from a very low base and with very little domestic capital and as a result gains will be kept to a minimum.

3. Modern technology must be adaptable to the region and factormobility must be at a maximum.
4. There should be similar demand conditions so that industries can be established which will produce goods which are in demand throughout the region, thus enabling them to attain economies of scale more rapidly and easily.
5. The individual nations should produce different primary products but they must approach a monopoly when combined in order to improve their terms of trade.

In his conclusion Allen states that common markets are not a panacea for developing nations and that, in fact, they may even retard development. Much depends on the attitudes of the individual governments and on their willigness to contribute to a joint development effort, not just their own nationalistic goals.[1]

C. Staley is somewhat more optimistic about the possible gains from common markets and his view is: "that the primary function of a common market in underdeveloped countries is to stimulate industrial progress not competition among industries that are still new".[2]

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1. R. L. Allen, op. cit., p. 265.

2. C. Staley, "Central American Economic Integration", Southern Economic Journal, XIX, No 2 (North-Caroline: October, 1962), p. 33.

R. Lipsey, to look at the other side again, doubts that unions of the poor nations can be very successful. He finds: "...that the sort of countries who ought to form customs unions are those doing high proportion of their foreign trade with their union partner and making a high proportion of their total expenditure on domestic trade. Countries which are likely to lose from a customs union, on the other hand, are those countries in which a low proportion of total trade in domestic, especially if the customs union does not include a high proportion of their foreign trade.[1]

Bhambri agrees with this last statement but relates that it has been pointed out that foreign trade no longer provides a stimulus to development and that consequentley the developing nations must protect their young industries and guarantee protection to those in planning stages. He further suggests that the poorer countries of the union should raise their tariffs to protect their capital goods industries or the more advanced nations should directly subsidize the non-durable goods industries of the poorer nations. He concedes that this is protection, direct and indirect, but free trade among unequals is, he concludes, hardly practiable either with such an union or without it.[2]

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1. R. Lipsey, "The Theory of Customs Unions: A General Survey", _The Economic Journal_, LXX, No. 3 (London: September 1960), p. 496.

2. R. Bhambri, "Customs Unions and Developing Countries", _Economia Internazionale_, XV n^{o} 2 (Genova: May 1962), pp. 235-258.

S. Dell accepts the conclusion of Bhambri but he is going further by stressing that the arguments for freer trade are not valid in the concept of underdeveloped nations. He writes: "As regards underdeveloped countries, however, the conventional theory simply misses the basic point. Being designed to explore the problem of optimal allocation of given resources, under given conditions of production, within a competetive framework, it cannot illuminate situations, such as those which arise in underdeveloped countries, in which neither resources nor conditions can be taken as given, and in which immobility of factors of production obstructs the operation of market forces".[1] He stresses the fact that integration schemes may lessen competition in these countries and he welcomes it. He does not feel that fostering competition among infant industries will aid these nations in attaining their goal of economic development and this competition is at best, a secondary concern. He also considers the increased efficiency of regional development, as opposed to national attempts at industrialization, and the possibility of being able to take advantage of economies of scale, to be important arguments for the formation of custums-unions.[2]

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1. S. Dell, A Latin Common Market? (London: Oxford University Press, 1956), p. 16.

2. S. Dell, Trade Blocs and Common Markets, (New York: A Knopf, 1963), p. 162.

Mikesell, sees approximately the same advantages among the poor nations. In general he states: "Such an arrangement would make possible the formulation of development programs and of policies for trade with the outside world on the basis of the resources of a region encompassing several countries rather than those of a single country. Each country within the group and each center of economic activity within individual countries would be able to develop its industries and agriculture on the basis of a broad regional market as opposed to a national market. Likewise productive factors could be drawn from a large area and there would be a tendency for the production of any particular good or service to be concentrated in the area best suited in terms of location of raw materials, availability of transportation and proximity to the markets".[1]

Of course, the benefits cited herein, as Mikesell notes, would be true of an economic integration of the whole world, but there are several additional advantages by integration of a region:

1. The centers of population and economic activity in the regions will be able to broaden their export base since a larger market area will be accessible for them.
2. A second advantage of regional integration lies in the greater opportunity for achieving economies of scale and in the external economies which can be expected with a broadened industrial base and a wide variety of industries.

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1. R. Mikesell, Liberalization of Inter-Latin American Trade, (Washington: Pan American Union, 1957), p. 19.

3. A third advantage is the opportunity to adopt a common policy with regard to external trade so as to give their infant industries protection and yet they will be able to provide a large enough domestic market to enable economies of scale to be achieved.
4. Finally, Mikesell emphasizes the importance of regional integration is enabling the countries of the region to coordinate their development effort and attack their problems as a region, instead of as individual with their own small markets. The chances of being able to obtain such an agreement on a regional basis, as opposed to one encompassing, the whole world, are much greater and this may actually be the best way of lowering barriers to trade on a world-wide basis.

Furthermore, Mikesell points out that when countries are geographically contiguous, there are special advantages to be derived from trade with each other which make regional integration even more inviting.

Transportation costs are lower, or at least could be if the countries would cooperate with each other. Factor mobility is much easier to promote when countries are in proximity with each other and the fact that neighboring countries begin to cooperate, in itself, will help to encourage additional trade and business ties which do not have to be at the expense of outside nations. Also, the opportunities for joint development of resources and joint construction of social-overhead capital are much greater among neighbors.

Mikesell acknowledges that the regional union will and should maintain certain protective trade barriers to enable their industries to get started, but fostering free trade within the region will enable the individual countries to become complementary and to diversify their output.

A further consideration is that as the amount of intra-regional trade increases, "the stability of individual members of the region will depend more and more upon stability of other members and less upon fluctuations of world markets for the region's exports to the rest of the world".[1]

In total it seems to Mikesell that the gains from freer trade within the region and the more rapid growth and development of the economies of the region outweigh any short-run losses to the rest of the world due to the initially protective policies of the region.

Another leading proponent of regional integration is Rául Prebish. His rationale is based on the criticism of the law of comparative advantage, which he believes is "outdated by reality" and continues to work only to the detriment of the underdeveloped countries by perpetuating the status quo.[2]

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1. Ibid., p. 27.

2. R. Prebish, The Economic Development of Latin America and its Principal problem. (New York: Praeger, 1950), p. 23.

The pattern of trade that has been developed, in most of the poor countries, is such that one or two major export products represent 80-90 percent of export receipts and account for a very large proportion of the gross domestic products. Prebish argues that any small fluctuation in demand for these products has drastic effects on income and employment in the less developed nations. He also points out that there exists a gap of imports over exports which is worsened by the deteriorating trend in the terms of trade unfavourable to the exports of the developing countries.

The Prebish solution lies with industrialization which he feels can best be facilitated through regional integration and the establishment of a common market. He proposes the creation of industries that are oriented to producing goods that can substitute for the increasing imports demanded and, since the goods were previously imported, a market is guaranteed. Integration would expand this domestic market and a common external tariff would protect the infant-industries. This group protection would make it possible:

1. for countries to use their existing agricultural and industrial capacities more fully in supplying one another's needs.
2. for new investment to take place in industries that would not be viable if confined to individual national markets.
3. for both old and new industries to reduce costs by benefiting from the economies of scale and specialization. In some cases this might help the industries affected to become fully competitive in world markets, including the markets of developing countries.[1]

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1. Ibid., p. 42.

Which are now the basic conclusions of this analysis of the different arguments for the formation of a customs union among developing countries?

1. The traditional customs union theory does not apply to the formation of customs unions among less developed countries. The factors which are said to determine the trade-creating and trade-diverting effects have only limited relevance for a union of developing countries since they do not allow for the inter-relationship of economic integration and development.
2. The arguments for customs union among developing countries are likely to be arguments for more effective protection of industrial production. Emphasis is put on the dynamic advantages that will accrue to the members of the union. The dynamic effects of customs union are usually expected to be induced through expanding the size of the market. It is claimed that such expansion will permit the exploitation of economies of scale, allow the capturing of benefits from external economies, promote technological change, reduce risk and uncertainty and induce increased investment within broadened market. Although many developing nations set their hopes on these dynamic effects, the theory is not well developed in this area.
3. The broadening of the market will also give the possibilities for a more rational policy of industrialization, the elimination of regional overhead facilities. This implies however coordination of economic policies of the member countries and a real planning by supranational institutions.

Let us now investigate the applicability of these conclusions on the Latin American realities.

First of all we would try to analyze the possible effects of trade creation and trade diversion.

There will be trade creation, following Powelson, if economic integration causes for example the Argentians to buy in Brazil rather than in Argentina itself and the cost to Argentina is reduced. If on the other hand, economic integration causes the Argentians to buy in Brazil rather than in the United States and the cost for Argentina is increased, there is trade diversion.

The Latin American Free Trade Association comtemplates initially more trade diversion than trade creation. The former seems less painful than the latter. Indeed, Argentina's buying in Brazil rather than in the United States (trade diversion) constitutes no visible harm to any Argentine industry. Although the cost to the nation is higher even the importer feels no pain, for his purchase in a high-cost market is compensated by the fact that he pays no duty. If, however, Argentina buys in Brazil rather than in Argentina (trade creation) a loss in market is suffered by the high-cost Argentine producer whose product is supplanted by the lower-cost output of Brazil. The nation may score a gain in real national income, but the individual damage offered by one sector becomes a political and social problem.

Recognizing the fact, The Montivideo Treaty provides that: "the Contracting Parties may, as a provisional measure and providing that the customary level of consumption in the importer country is not thereby lowered, authorize a Contracting Party to impose non-discriminatory restrictions upon imports of products included in the liberalization program which originate in the Area, if the products are imported in such quantities or under such conditions, that they have, or are liable to have serious repercussions on specific productive activities of vital importance to the national economy".[1]

In other words, there is an escape clause against trade creation that excessively damages the domestic economy of any country.

Latin Americans will argue, as the theorists Dell, Mikesell, Balassa and Prebish do, that theories concerning trade creation and diversion have only limited relevance to their economic integration. They say that the economic conditions in Latin America are not the same as in Europe where the foundations were found for the traditional customs union theory. Europe had more a vested interest in industry than Latin America. Germany and France are industrialized countries and it is an important question to them whether increased purchases by Germany and France shall supplant prior purchases in the United States (trade diversion) or in Germany herself (trade creation).

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1. S. Dell, The Latin American Common Market?, op. cit. p. 3-7.

Criteria in Latin America are different. All countries are committed to planning for economic development and they contemplate ever-rising incomes. Many see integration as a movement which will not much affect present channels of production and trade but the purpose of which is to mold the growth channels of the future. If for example steel is produced in Venezuela at higher cost than in Brazil, LAFTA should not interfere with the present productive capacity and employment in Venezuela, which might apply temporary restrictions under the article mentioned. However all expansion in the steel industry would be expected to occur in Brazil and Venezuela's purchases over and above her present output would be made there. Since the protection for Venezuela under the Treaty is only provisional, the country should take the necessary measures to withdraw its capital as it depreciates and invest it in another industry with a promising future. The integration builds a complementary industrial structure so that expansion constitutes trade creation in a broad sense by establishing new channels of expected growth. Economic expansion constitutes trade creation in a broad sense, but is neither creation nor diversion in the meaning of the static theory. Venezuela's additional purchases supplant nothing but constitute a new channel of expected growth.

In Latin American's opinion the effect of economic integration will not be the algebraic summation of trade creation and trade diversion but it is a process with dynamic effects on the rate of growth. Economic

integration,of which intra-zonal trade creation is only one part, is a technique to achieve economic development.

The underlying rationale in Latin American's common market formation is that this process will make it possible to take advantages of important economies of scale and regional specialization. This will not merely contribute to a more efficient operation of existing industries but will create additional incentives for the establishment of new industries and thus help to speed up the rate of growth. Let us explain this general statement.

Are there possibilities for economies of scale? Until now the majority of national markets in Latin America are of very small size and even smaller in terms of income per capita. These markets cannot support the efficient operation of modern large scale industry at or near full capacity. Most of the existing industries are operating at a level lower than full capacity. Some countries, as Argentina and Brazil, have created a vast amount of unnecessary internal duplication of capacity. This has been done by offering such favorable terms and facilities to European and American industries that the latter were able to set up a whole series of local plants almost without regard to the efficiency of operations. A typical example is the automobile industry which has been developed rapidly in Argentina, Brazil and Mexico, with a similar development under way in Chile, Columbia, Peru and Venezuela. As a result, the total Latin American market for passengers cars, estimated at approximately 300,000 units per year, has been divided between some

forty plants owned by a dozen or more foreign companies. This is in sharp contrast to developments in Western Europe, where each of the main producers supplies the market between 250,000 and 500,000 units a year. Thus the unit cost of a car produced in any Latin American country is at least double than in Europe.[1]

Another striking example of failure to exploit economies of scales is to be found in the chemical industry. At the present time Latin America produces about 70 percent of the chemicals it consumes. An extensive study of the industry by ECLA has shown that if the production were organized on a regional scale their prices would decrease below international levels.[2]

The formation of a common market in Latin America can change the situation. An increase in the size of the market allows for the establishment of larger plants as well as for horizontal and vertical specialization. By horizontal specialization we mean that firms specialize in different varieties of the same commodity, while vertical specialization refers to separating various activities leading to the production of a given commodity in individual establishments.

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1. R. Prebish, op. cit., p. 96.

2. United Nations, Economic Commission for Latin America, La industria quimica de Latinoamericana (New York/ E/ CN/ 14/ 751), p. 107.

Typical examples of the way economies of scale can be obtained in different Latin American industries is illustrated by B. Balassa.[1] On the basis of different studies he figured out that the annual output for an efficient integrated steel plant must be 1 million ingot tons. If it only works on 50 percent of its capacity the production costs are 18 percent higher and approximately 30 percent higher in the case of a plant producing 0.25 million ton per year. The steel consumption was in 1963 for whole Latin America 5.5 million tons and this year it is estimated at to increase by 7.4 percent for a 10 percent rise in output. With appropriate consideration given to transportation costs and intercountry differences in the availablility of coal and iron, B. Balassa concluded that the optimum pattern would entail Mexico and Chile supplying steel to the other Latin American countries.

In the manufacturing of fertilizers, economies of scale can be obtained by reason of the less than proportionale rise in inputs which increases in output. Vietorisz and Manne have found that the estimated fertilizer needs of Latin American countries in the year 1965 could be most efficiently supplied by a single integrated plant. The cost of the optimal combination for an annual production of 1 million tons of ammonia has been given as U.S. \$64.9 million as against \$89.4 million in the case of the "non-cooperative" solution, when intra-trade is assumed nil, whereas the cost of supply relying on imports from outside the area would exceed \$100 million.[2]

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1. B. Balassa, op. cit., pp. 92-101.

2. T. Vietorisz and A. Manne, Chemical Processes, Plant Location and Economies of Scale, Studies in Process Analysis (New York: John Wily and Sons, 1963), pp. 136-158.

Concerning horizontal specialization we can say that in industries producing a great variety of commodities, plants in larger markets are generally able to specialize in a narrower range of commodities and enjoy cost advantages due to longer production runs. These cost advantages relate to reductions in fixed cost per unit, decrease in some elements of direct costs and increased productivity at higher output levels. According to ECLA the economies of scale in the textile industry are however of relatively small importance. Costs per unit in Latin American plants will only decrease by 10 percent as output doubles.[1]

The process of vertical specialization, as a consequence of economic integration, will contribute to greater productivity, in as much as economies of scale can be appropriated in the specialized plants. Especially in the earlier mentioned automobile industry is the vertical specialization of great importance. The enlargement of the market will give gains through the establishment of specialized plants producing parts, components and accessories of automobiles. In the United States of America, for example, with the expansion of the production of the automobile industry, components and parts, such as electrical systems, radiators, etc., have come to be manufactured in separate plants. Developments in this direction have been observed in Brazil and Mexico. Ec-

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1. United Nations, Economic Commission for Latin America, The Textile Industry (New York, ST/ECLA/ CONF 11 L .20), 1961, p. 16.

onomic integration can bring a continuation of this process and moves towards the interchangeability of parts and components in all countries which will provoke gains for all the nations involved in automobile production.

Another opportunity presented by a common market is that the enlargement of the market will also create external economies. Unlike economies of scale they appear external to the firm in Marshallian terms: "the various economies of specialized skill and machinery, the increased facilities of communications of all kinds, trade knowledge, skilled labor force etc. They represent an overall cost diminuation due to the creation of new specialized firms which have increased the functional relationship of the whole productive system".[1]

It is evident that those nations which do not have a coherent and diversified industrial structure, cannot realize external economies. With the growth of the industrialized process the situation can be changed. This was the case in Latin America where the appearance of "growth-poles" have provoked external economies, especially in the regions of Sao Paulo, Rio de Janeiro and Buenos Aires. The same evolution is noticed in other industrial centres as Monterry in Mexico, Medellin in Columbia, Lima in Peru, Cordoba in Argentina and Santiago in Chile.[2]

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1. A. Marshall, Principles of Economics (London: Macmillan, 1962), p. 234.

2. Transport and Economic Integration in Latin America (Washington: Brookings Institution, 1966), pp. 11-22.

The further realization of external economics depends both on the economic progress of these nations and the way they integrate their larger market.

On the other side we may not forget that the gains from the external economies can be offset by an unbalanced structural growth. Therefore it will be necessary, especially in the case of Latin America, to take measures to avoid the structural disequilibrium. The concentration of industrial activities in certain regions can in the same time emphasize the existing differences between the countries. Therefore there is a need for coordination of national policies; without it, economic disparities among participants will be intensified and perpetuated and threaten the entire integration movement. To this end, planning, to foster coordination and give life to it, has a special importance in Latin America. This planning and resultant coordination will not be easily attained in a continent as Latin America. The formation of a Latin American Common Market involves cooperation on the leadership of 11 nations which are widely aligned in two different groups: the LAFTA and the Andean-group.[1] Furthermore Latin America is under no great political pressure to pursue integration; in fact the drives of nationalism are a force against it. Finally, Latin America seems destined not to receive the external assistance of a Marshall plan. All in all, Latin America faces a strong challenge, one where dedicated leadership must be

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1. Andean-group is a subregional movement in Latin America formed in 1969 by Bolvia, Chile, Columbia, Ecuador and Peru with the purpose to create a common market.

assumed a prerequisite of planning that can result in the desired and required coordination of effort.

At the end of this chapter we may make the following concluding remarks.

Moderate protection can assist young nations to develop comparative advantages in manufacturing, commerce and other activities that promote cost reduction through large scale output and external economies. But protection by itself does not stimulate development, it must be joint by other measures - rational economic programming, entrepreneual capacities and political stability - that are part of the development syndrome.

Protection on an individual country basis will not lead to rational comparative advantages for most Latin America because they do not have large markets. Also they cannot compete with stronger countries in world exports, they must develop large-scale manufacturing within their region. Herein lies the theoretical justification for LAFTA.

In the zone itself, LAFTA wants to go beyond a pure trade liberalization mechanism. The traditional customs union theory, based on the elimination of tariffs and other trade restrictions between the countries, brings only a partial explanation of this important process. Full integration can only succeed within a general context of economic, political and social change. Therefore there is a need, for an over-all coordination of the different policies of the nations.

CHAPTER IV

TREATY OF MONTEVIDEO

The Treaty of Montevideo was signed in February 1960 by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay and entered in force in mid-1961. It was only after difficult negotiations that the seven original members were joined by Columbia and Ecuador in 1961 and by Venezuela in 1967. In early 1968 Bolivia, the only country that participated in the 1960 negotiations but abstained from signing the Treaty, also ratified the LAFTA treaty.

The Treaty is an impressive legal instrument despite its brevity. It embodies not only provisions for graudal trade liberalization within LAFTA but also the outline for a more all-encompassing regional economic integration program.

I. Trade Liberalization

The trade liberalization is to be achieved through periodic negotiations establishing (a) national schedules specifying annual concessions which each country is to grant to the others; (b) Common schedules listing the products on which the contracting parties collectively agree to eliminate in no more than twelve years all duties, charges and other restrictions on imports of goods originating in the territory of any contracting party. The elimination of internal barriers is thus to be achieved by 1973.

Each contracting party is committed to grant to other members of LAFTA annual reductions in duties and charges amounting to not less than 8 percent of the weighted average applicable to third countries. These

reductions are listed by each country in the national schedule which must be published by 1 November and enter into force from the following 1 January.

Concessions listed in national schedules may be withdrawn by negotiations among member countries, subject to the provision of adequate compensation and they may also be set aside under the provisions of various escape clauses.

In order to give a greater finalty, the Treaty provides the Common Schedule. The Common Schedule is to consist of all those products on which LAFTA members agree to eliminate duties, charges and other restrictions completely vis à vis one another within the twelve-year period of negotiations. To this end provision was made for triennial negotiations to be held among LAFTA members during the third, ninth and twelfth years from the effective date of the Montevideo Treaty. The negotiations were to be completed by 30 November of each negotiating year. The items placed on the Common Schedule at the end of the first three year period were to account for 25 percent of trade between the participating countries during that period and this proposition was to rise 50 percent at the end of the second three-year period and 75 percent at the end of the third-year period. By the end of the twelve-year period of transition, the Common Schedule of restriction free items must account for "substantially all" of the trade between LAFTA members.

The inclusion of products in the Common Schedule is final and the concessions granted in respect thereof are irrevocable, except for temporary relief under escape clauses.

The weighted average approach tariff reduction gives however the Contracting Parties some freedom in action in subsequent negotiations, thus ensuring a gradual adaptation of national productive structures to the trade liberalization program. Any country seeking to protect one of its domestic industries for a certain transitional period may grant limited concessions to products of competing industries within the area if it compensates by extending more substantial to other products in order to reach the required annual average.

The percentages governing the gradual expansion of the national and common schedules shall be calculated: "on the basis of the average annual value of trade during the three years preceding the year in which each negotiation is affected".[1]

The Treaty was drawn with the deliberate intention of freeing not merely the existing trade but also the trade in all products whether exchanged among the member countries or not. Article 14 sets forth both objectives: it states that the contracting parties shall take steps not only to include in the national schedules the largest possible number of products in which trade is carried on among the contracting parties but also to add these schedules an increasing number of products which are not yet included in reciprocal trade.[2] The significance of this article

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1. M. Wionczek, Economic Cooperation in Latin America, Africa and Asia (Cambridge: Massachusetts Institute of Technology, 1969), p. 20.

2. Ibid., p. 47.

must, however be viewed in the light of the rules governing the reduction in duties that has to take place each year following negotiations among contracting parties.

The method whereby the average annual 8 percent reduction in duties is to be calculated is laid down in Protocol n^{o} 1 to the treaty. A careful examination of this method reveals that member countries only need to reduce their restrictions on the commodities that they already imported from other members in substantial volume. Since this trade is large of a non-competitive nature is limited very largely to agricultural commodities not being produced in adequate quantitites in the importing countries and non-agricultural primary materials and fuels, the required reduction in the average tariff can be brought about without the admission of any new products and with very little disturbance to the pattern of trade. As Mikesell notes LAFTA does not, like the European Economic Community, contain any automatic provisions forthe complete elimination of duties: "Trade in manufactures constitutes less than 5 percent of intra-LAFTA member trade, and about a third of this trade is represented by semi-processed copper manufactures. Most of the trade in non-agricultural primary commodities, which constitutes less than 5 percent of total intra-LAFTA trade, is not likely to be affected significantly by a reduction in tariffs. Hence, it is clear that most, if not all, members of LAFTA could reduce their average tariff on imports from the other members by 90-95 percent in accordance with the formula established by the

Treaty - which presumably would represent substantial compliance - without reducing restrictions on manufactures or on other commodities which might involve competition with domestic producers."[1]

If the Treaty wants to make a significant contribution to the economic development of Latin America, it has to promote an expansion of trade in semi-finished and finished manufactures and by creating incentives for the establishment of new industries able to count upon access to the whole of the Latin American market. But if this objective is to be achieved, what will count most in the liberalization process are not the products imported from the area in the preceding three-year period but those that have not yet entered significantly into trade within the area. In fact, the success of the Treaty may be measured by the extent to which it encourages to bring new products into the calculation of the annual percentage reductions in mutual tariff barriers.

II. The Principle of Reciprocity

A basic principle which appears frequently in the Montevideo Treaty is the principle of reciprocity. According to this principle, each country will negotiate concessions on import restrictions with the expectation that the concessions given and received will result in a more or less equal expansion of that country's exports and imports in trade with other

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1. R. Mikesell, "The Movement Toward Regional Trading Groups in Latin America", in A. O. Hirschman, op. cit., p. 137.

members of the area as a whole. The interpretation of the principle must be clear: no member country can expect to derive from the area more benefits than it offers.

The need for reciprocity is particularly important because in granting one another mutual trade preferences, the countries participating in a free trade area or common market forego the advantages of being able to buy from the cheapest possible sources available anywhere. It makes sense for a country to grant preferential treatment in return. If say, Columbia undertakes to buy a particular product in Brazil instead of getting it more cheaply from suppliers in the United States, it is only natural that Columbia should ask for reciprocity in return.

The Treaty of Montevideo does not indicate at all clearly how reciprocity should be achieved within a Latin American Common Market, although there is a broad indication that export gains should be of a similar order of magnitude from country to country. As F. Brandenburg indicates ECLA has made fairly proposals to this end and formulated the following recommendations:

> "For the success of the common market it is important that all the member countries should have the opportunity of expanding their exports at the same time as they take action to reduce their duties, taxes and other restrictions on imports. To this end, member countries, which, as a result of the facilities granted to them, in-

crease their exports to the common market without a proportionate increase in their imports, should accelerate the rate at which they reduce their duties, taxes and other restrictions."[1]

The underlying reason for the inclusion of the principle of reciprocity is twofold. First the countries which constantly export more than they import from the area must take measures to restore equitable treatment. A more rapid reduction of restrictions and tariffs with a view to stimulating exports from deficit countries might be effective if accompanied by a reasonable margin of preferential treatment in favour of area-products. Here there is a serious lacuna in the Treaty that must be filled. Provision would have to be made for a minimum margin of preferential treatment within the area in favour of items for which tariffs were reduced. The aim is to avoid that one country should receive more benefits to its own industrialization program than the others. The principle is thus to achieve a kind of balance of industrialization within the LAFTA-area.

Secondly, it is basic to the principle which ECLA has maintained in the past, namely that intra-Latin American trade should not give rise to balances which must be settled in gold or convertible currencies. It has been a firm belief of ECLA that at least the Southern Zone of Latin American countries would never agree to a trading arrangement which re-

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1. F. Brandenburg, The Development of Latin American Private Enterprise (Washington: National Planning Association, 1964), p. 27.

sults in a country's having to settle a balance in convertible currencies. The argument is "analogous to the dollar shortage argument which was quite common in Europe".[1] In effect, it argues that since Latin American industrial products are not competitive with United States and Western European products, any country receiving convertible currencies in payment for an intra-Latin American surplus would spend the funds outside of Latin America.

Fundamental objections to the principle of reciprocity are based on a simplified model of the world economy in which every country serves its own best interests by buying in the cheapest market and selling in the dearest. But if that was true in the case of developing nations there would be no need for regional integration. The establishment of customs unions and free trade areas is designed quite deliberately to prevent the flows of trade from being determined by price relationships prevailing in a completely free market. The idea is rather that of a focusing of trade flows within an integrated region leading to a dynamic growth of output and income within the zone to an extent that could not otherwise be achieved.

The error made by the critics of the principle of reciprocity lies in viewing the Latin American economic problem in static terms - in terms of the optimum use of existing resources; whereas the real need is to

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1. R. Midesell, "The Movement Toward Trading Groups in Latin America", op. cit. p. 139.

seek and expand the opportunities for dynamic growth. The objective should be to create maximum incentives for the establishment of new industries in Latin America, and such incentives will be all the greater the larger are the markets available. The important thing is to ensure that the industries producing, say, iron and steel, pulp and paper, and petrochemicals will be constructed and adapted in line with the requirements of region-wide markets and not on the assumption of narrow national markets.

But no individual Latin American country would have any incentive to shift its existing source of supply for many industrial products away from North America or Western Europe and in favour of its Latin American neighbours if it did not receive a corresponding advantage in return. This fact lies at the heart of the difference of view between orthodox thinking and the modern view. It is a question of free trade versus economic development - that is the crux of the problem of reciprocity.

III. The most-favoured-nation treatment clause

This clause is a consequence of the principle of reciprocity. It implies that in the framework of LAFTA's common market policy, it will be practically impossible for this institution to formulate a preferential system based on bilateral agreements which are in contradiction with the clause of the most-favoured-nation.

Indeed article 18 of the Montevideo Treaty constitutes in this way a straightforward statement by formulating that: "any advantages either existing or as a result of the trade liberalization program, which are granted to any other country by a contracting party, shall be immediately and unconditionally extended to the similar product originating in, or intended for consignment to, the territory of other contracting party".[1] Article 19 does provide an exception in the case of arrangements for facilitating border trade, but this is a quite justifiable and traditional clause in Latin American most-favoured-nation agreements. There are a number of situations in which the border passes through communities in which the residents on either side of the border have more in common with one another from an economic standpoint than they do with other regions in their own country.

So, it is clear that all the preferential agreements between nations existing before the Treaty which were denounced, received from February 1960 a multilateral character for all signatories. While it was in the intention of the drafters of the Treaty to eliminate them it is more difficult to see how this principle can operate in the case of special industrial complementary agreements and provisions for special assistance to the less industrialized countries in the free trade area.

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1. M. Wionczek, op. cit., p. 48.

First of all in some cases the complementary agreements may involve private agreements between firms in two countries. Such agreements would include, say, the right to import specific manufactured commodities which may constitute intermediate products or portions of product lines of an industry, in exchange for the right to export complementary products to private firms in the other country. Planned complementarity arrangements of this kind simply do not lend themselves to the application of the most favoured-nation treatment principle.

The provisions for special assistance to the less industrialized countries also violate that principle. Chapter VIII of the Montevideo Treaty provides that the contracting parties may authorize the extension of concessions by some contracting parties to other member countries at a relatively less advanced stage of economic development within the area which are not extended to other contracting parties.[1] It also authorizes a contracting party at a relatively less advanced stage to proceed more slowly with its liberalization program. These provisions which involve discrimination and the possibility of special deals which violate the most-favoured-nation principle were taken over from the recommendations of the ECLA - working - group.

IV. Escape Clauses

Any LAFTA - country whose production, trade or balance of payments are adversely affected by concessions granted under the Montevideo Treaty

1. Wionczek, *op. cit.*, p. 84.

can seek relief under various saving clauses of the Treaty. Mention has already been made of the application of the principle of reciprocity under the Treaty. In accordance with this principle, if a participating country suffers significant and persistent disadvantages because of concessions granted to other LAFTA - members, then it can request the other contracting parties to consider the adaption of suitable non-restrictive measures. Actions may be similarly be requested if such disadvantages occur for reasons other than the granting of concessions under the Treaty.

In these cases the emphasis is upon non-restrictive measures designed to restore an appropriate balance of advantage among LAFTA - members. If, however, such measures prove insufficient to prevent adverse effects upon the production or balance of payments of a member country, the affected party may receive authorization from other members to impose temporary non-discriminatory restrictions on imports of commodities listed in the National Schedules or even in the Common Schedule. These restrictions must not however, be such as to reduce the customary level of consumption in the importing country.

The escape clauses together with the reciprocity previsions, have the effect of making any concession or liberalization measure with respect to a product, whether that product be on a national list or on the common list, little more than temporary action which can be revoked at any time for a variety of reasons. Thus, the liberalization measures are not sufficiently permanent to give a prospective domestic or foreign investor within the area the confidence he requires to undertake an invest-

ment to supply a market in other LAFTA - members countries. With such regulations it is difficult to see how the existence and operation of the Treaty can have an appreciable effect on the pattern of investment, especially in the private sector.

V. Agriculture and Industry

Agriculture is subject to quite different treatment from industry under both the EEC and EFTA - treaties and a similar pattern is followed in LAFTA. The signatories of the Treaty of Monteviedeo agreed with the point that agriculture would need to undergo profound changes before it could be expected to face the pressures of regional competition. It was recognized that market forces could not be expected to operate in a benefical manner in an environment that was essentially hostile to enterprise, as the subsistence sector of agriculture usually is.

The Treaty of Montevideo therefore provides for special treatment of agriculture. Participating countries have to coordinate their agricultural trade policies and will attempt to expand their mutual trade in agricultural products.

Consequently, participating countries may, during the transition period, limit their imports of agricultural products to the amount required to bridge the gap between domestic production and consumption and may to this end, take steps to equalize the prices of imported and domestic products. Where countries do have deficits in domestic production,

they are required to give priority under normal competitive conditions to products orginating in the territories of the other contracting parties due to the consideration given to the traditional flows of intra-area trade.

In their interpretation of the special regulation for agriculture some LAFTA - members pretend that they will not give priority to imports from other LAFTA suppliers so long as the latter are not able to meet price competition from third countries. In the Treaty of Montevideo there is however no criteria for the calculation of the national prices which are competitive with those of third countries. In this way G. Cevallos states that it will be necessary to fix over-all agriculture prices which form the basis for the calculation of national prices. He writes: "Dans ce sens, l'établissement de prix agricoles moyens comme base de référence pour le calcul des prix nationals constituerait un moyen d'éviter les abus dans l'application des dispositions relatives à la limitation des importations des produits agricoles".[1]

In my opinion the consideration of these facts is more fundamental. Indeed, Latin America has the opportunities for the realization of all types of land cultiviation and the case for specialization and exchange in its agricultural development is obvious. It would be undesirable to place limitations on such specialization because of the competitiveness of

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1. G. Cevallos, L'Intégration Economique de l'Amérique Latine (Genève: Droz, 1968), p. 36.

supplies from third countries. Achieving competitiveness with supplies from other countries should certainly be a long-range target, but the very attainment of that target depends in fact on the creation of region-wide markets for the output of the Latin American countries.

One of the most important provisions of the Treaty of Montevideo is that which authorizes the negotation of agreements designed to promote industrial development on a co-ordinated regional basis. As we shall see, the overall success of the integration programme may well depend on the effectiveness of joint industrial planning for the Latin American region as a whole.

The Treaty provides for participating governments to coordinate their policies of industrial development and to promote the negotiations of agreements between representatives of particular industrial sectors. The Treaty does not specify the scope or content of such agreements and there is room for considerable variation in the procedures employed in each case.

There are two basic difficulties in the application of the complementary agreements:

1. To Latin Americans the concept of complementarity is a means of avoiding, within their continent, the problems involved with regional dualism. The rapidly growing nations must show responsibility for the others. The question is here for the richer countries in how far they will take their responsibilities? As Powelson points out: "...it is reasonable for a wealthy man to contribute to a sick

brother but it is unthinkable that he be so devoted as to neglect his own advancement. Many Brazilians feel this way too and I suspect that in practice the strong nations will not allow the complementarity provision to hold them back".[1]

2. The second of the difficulties in seeking to apply the principle of planned complementarity as against competition exists in the differences in economic philosophies found in the governments themselves. Some countries are not planning minded, others prefer a greater degree of freedom in business. If complementarity is to be achieved by means of private agreements, which would amount to international cartel agreements, such agreements either will need to be subject to a high degree of governmental control or they are likely to be in opposition to consumer and general public interests. There is a real danger that cartel agreements will tend to stiffle progress toward greater productivity efficiency and the expansion of production and trade within the area.

In order to cope with these difficulties it may be appropriate for the complementarity agreements to be prepared and negotiated simultaneously for a wide range and variety of industrial activities, so as to make it easier for each country to secure the essential reciprocity in the development of new industries capable of competing in the common market.

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1. J. P. Powelson, op. cit., p. 204.

VI. Less Developed Countries

In addition to the general protection of the complementary provision, less developed countries within the region have special temporary concessions. The Contracting Parties may authorize such countries to reduce duties at a slower pace than is required in the general agreement, to receive concessions without extension of most-favoured-nation-treatment to third countries within and to take non-discriminatory measures to protect domestic output. Finally, provision is made for collective arrangements by the LAFTA - countries for obtaining financial and technical assistance for the less developed countries, both inside and outside the area, with a view to expanding existing activities or encouraging new ones.

The special advantages envisaged by the Treaty have been granted to Paraguay, Ecuador and Bolivia.

VII. Institutional and Executive Problems

The Treaty of Montevideo established in reality two LAFTA organs: a Conference of the Contracting Parties and a Standing Executive Committee.

The Conference meets at least once a year to adopt, on a "one-country, one vote basis" decisions on all major matters of substance. Subject to certain exceptions, the Treaty provided that during the first two years of operations, decisions by the Conference should be adopted by the affirmative votes of at least two-thirds of the Contracting

Parties, so long as no negative vote was cast. The hope was present that it might become possible to dispense with the veto provision over a growing area of decision making. At the end of 1963, however, it was decided to maintain the existing system of voting, including the veto clause.

The Standing Executive Committee is the permanent organ of the Association responsible for supervising the implementation of the provisions of the Treaty. It has a variety of responsibilities of an executive character, including the convening of the Conference, the preparation of work programmes, budget estimates and the presentation of an annual report on its activities and on the results of the implementation of the Conference. The Committee represents LAFTA in dealings with international organs and entities, as well as in contracts and other instruments of public and private law.

It consists of representatives of each member country and has a Secreteriate headed by an Executive Secretary and staffed by technical and administrative personnel. ECLA and OAS act as the Association's technical advisers.

In 1965 LAFTA created the Council of Ministers. Until this date all agreements negotiated by the various national representatives to LAFTA were subject by the individual national governments, which met separately and not under LAFTA auspices. Thus months of cooperation by the representatives could be nullified by the national governments. The Council of Ministers was created with the purpose of ending the lack of a real exe-

cutive power at the ministerial level of the member countries to implement the agreements proposed by LAFTA. The Council of Ministers, the supreme organ of LAFTA has the following functions:

- to establish general norms to complement the objectives of the Treaty and insure a harmonious process of economic and social development and integration
- to evaluate the efforts of the Association and establish the fundamental objectives to serve as the base for a program of work
- to identify and resolve major policy issues and to serve as a referee between the Conference and the Committee
- to establish basic norms to regulate the relation of the Association with countries outside the region and with international organizations
- to delegate to the Conference or Committee the power to make decisions on specific matters destined to permit more complementarity among the objectives of the Treaty.
- to make decisions on amendements to the Treaty
- to modify the system of voting of the Conference and to establish procedural regulations[1]

The Treaty of Montevideo remains open to accession by an Latin American state by the simple device of depositing the relevant instrument of accession. For such acceding states, the Treaty enters into force thirty

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1. LAFTA, Sintesis Mensual, (Montevideo: January 1967), pp. 21-25.

days after the deposit of the instrument of accession and at the next session of the Conference following the date of deposit, the new member state enters into negotiations so as to comply with the requirements of the Treaty regarding the reduction of trade barriers.

This procedure was followed for the accession of Ecuador, Columbia in 1962 and for Venezuela in 1967 and Bolivia in 1968.

Under the Treaty, new members benefit from concessions already in effect as a result of previous negotiations only after they themselves have lowered their own trade barriers by 8 percent for each year since the Treaty went into force. If, therefore, a new member were to join at a relatively late stage in the twelve-year transition period it would be faced with the need for a very substantial measure of liberalization and it might well prove necessary to adopt some means of graduating the reduction in trade-barriers so as to avoid undue economic dislocation.

Finally, we may say that the Montevideo Treaty, in spirit if not in letter, sought to establish something less ambitious than a common market but potentially more than a free trade zone. It has the ambition to apply the rules of trade-liberalization but in the same time we find that the term "competition" does not appear in the Treaty, nor is any recognition given to the existence of business practices both within countries and between firms in different countries which may tend to stifle competition. The Treaty expresses a negative attitude toward competition in favor of regulation, planning and government operation.

Now, the purpose of a free-trade area is to establish a zone of unrestricted trade among its members. Although it sounds simple a number of questions have risen to be faced and solved by LAFTA. For example, there is the question of the interpretation of the Treaty regarding the extent to which it is intended to lead toward freeing not only existing trade but also new products not yet traded by the member countries.

As we will see in chapter V, there is a tendency that the trade among LAFTA - countries continues to be concentrated on unprocessed foodstuff, while the growth of intra-trade in manufactures is relatively slow.

In addition it is becoming increasingly difficult to negotiate the number of concessions required by the National Schedules. This happens partly because the easist concessions have already been made and further concessions are much more difficult and because negotiating on an item - by - item basis as discussed earlier, continues to be difficult. Relative to the first problem is a growing complexity of the process of negotiating because of the multiplicity and heterogeneity of duties and restrictions applied to the same product by different countries. Interrelated with this is the extreme complexity of the problem of defining and controlling the origin of products subject to liberalization.

Other major bottlenecks encountered in the application of the Treaty are the restricted use of complementarity agreements and the interpretation of the principle of reciprocity. The absence of an agreed program of joint development among the member countries has also a major factor

in slowing down the process of tariff cutting within LAFTA. Differences in the margin of preferences offered by various countries and, consequently, in the commercial stimulus provided by the liberalization of the same category of products, have also caused delays. Related to these factors - to some extent resulting from them - is the fact that not all countries have shared equally in the gain brought about by intra-regional trade, the larger countries have gained more. The smaller and less developed countries have not been inclined to allow the location of new industries to be determined entirely by market forces operating in an environment of regional free trade. They fear that all new industries catering to the regional market will gravitate to the established centers in Argentina, Brazil, or Mexico and that other LAFTA countries will gain little or nothing from the process and, indeed, may even lose through the destruction of their existing industries by more powerful competition.

This complication has been recognized; consequently, the Conference in Resolution 75 (III) and Resolution 100 (IV)[1] made it clear that a balanced or equitable amount of development was desired among all countries and not merely the formation of a free trade area. With the passing of these resolutions LAFTA turned its attention toward the long run goal of a common market, with a free-trade area representing the first step along the way.

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1. Ibid., pp. 84-87.

After all we must recognize that the Treaty is a step in the right direction. It was the first attempt of the Latin American countries to deal with their economic problems cooperatively. Given time and political stability the Treaty can give a further stimulation for the realization of economic integration necessary for the achievement of satisfactory rates of growth.

CHAPTER V

TRADE LIBERALIZATION
IN LAFTA

Any review of LAFTA's achievements and shortcomings must be based on a recognition that the Treaty of Montevideo was the beginning of a process, not the end, and that the process will have to go on for many years before sure foundations have been laid for a common market in Latin America.

The immediate success of LAFTA and the outlook for its future can best be perceived by examining the development of its trade structure before and after 1961 and by analysing the repercussions of the tariff concessions both in the national and common lists.

In this chapter we have four sections. The first one puts in perspective the total trade of LAFTA and its main components the intra-zonal and extra-zonal trade. In the second section we pay attention to the import and export structure of the intra-regional trade. In the last two sections we will point out the influence of the tariff concessions on the trade of LAFTA.

I. Global Analysis of the LAFTA-trade

Analysing Table I we find that the growth of intra-zonal trade in the period 1961-1968 was more vigorous than that of the total foreign trade of LAFTA. Taking 100 points as the index basis of 1961, the two indices rose to 256[1] and 131 respectively in 1968. These figures indi-

1. This figure appears in the index calculation of Table II, see Appendix, Table II, p. 125.

cate that the acceleration rate of the intra-trade was two times faster than that of the global trade. Consequently the share of the regional in the total trade approximately doubled between 1961 and 1968.

Looking at the extra-zonal trade we remark that its relative share in the total foreign trade remains important. In 1968 Latin American countries still have more extensive commercial relations with the rest of the world than with their zonal partners. About 88 percent of their trade is "extra-muros" while the regional intra-trade amounts only to approximately 12 percent. A further investigation done by W. Turnage indicates that over the period 1961-1967, the extra-regional exports increased more than 100 percent while the extra-regional imports in the same period increased less than 10 percent.[1]

As S. Dell pointed out, it was quite natural for Latin American countries to consider, in the early stages of integration, that they should not do anything to harm the 95 percent sector of their foreign trade for the sake of a 5 percent sector. They felt that any disturbance of the level of their tariffs against third countries might endanger the whole external trading position, without adequate compensation within the region.[2]

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1. W. Turnage, LAFTA - Developments (Montevideo: 1967), pp. 7-10.

2. S. Dell, *op. cit.*, p. 89.

In the later period and with the benefical evolution of LAFTA the member countries found that intra-regional trade should not be expanded at the expense of extra-zonal exports. Indeed, the latter are very important to the success of LAFTA itself, because of the need for foreign exchange to obtain imports of needed capital equipment. While it is desirable to develop industry supporting the expansion of intra-regional imports to save foreign exchange, the LAFTA development indicates also a need for foreign exchange industries. For the LAFTA countries and their relations with non-member countries it is most important that positive trade effects result so that member countries can earn foreign exchange in order to finance more industrialization and pay the rapidly rising costs of debt services.

The data in Table II shows that the global regional trade and both its components, imports and exports, decreased between 1955 and the signing of the Treaty. Exports of Latin American countries to one another reached their relatively highest point in 1953, when they were equivalent to 12.1 percent of total exports. By 1961 they had declined to a mere 7.1 percent of total exports. The highest dollar total of Latin American regional trade was reached in 1955. From 1955 to 1961, while trade among Latin American countries declined by over 25 percent, their imports from the rest of the world increased more than 20 percent. It is striking that the entire decline in regional trade was concentrated among the four southern countries: Argentina, Brazil, Chile, and

Uruguay; of the total decline in regional trade amounting to $200 million from 1955 to 1961, the southern four alone accounted for no less than $188 million.[1]

The drastic drop in intra-regional trade at a time when imports from the rest of the world were expanding reflected the progressive abandonment of the instruments whereby Latin American countries had discriminated in favour of one another during the early postwar years. It is also significant that foodstuffs alone accounted for $160 million of the total drop of $200 million in the intra-trade, while the value of imports of foodstuffs from developed countries was approximately maintained.[2]

Since 1961 the regional exports and imports of all members have increased, approaching or surpassing the 1953-1955 peak. Between 1961 and 1964 intra-zonal imports doubled and until 1965 the annual increase averaged 20 percent or more. Also the regional exports rose from 100 points in 1961 to 212 points in 1965. Considering the general evolution of the "intercambio" (intra-trade) in the total trade we may say that the liberalization of LAFTA had benefical effects on the growth of the value of the intra-Latin-American trade.

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1. See Appendix, Table III, p. 126.

2. V. Urquidi, La Génèse du Marché Commun Latinoaméricain (Paris: Tiers Monde, 1961), p. 34.

In 1966 the relative share of the regional in the total foreign trade of LAFTA declined for the first time since the Association was founded. Tables I and II indicate however an increase for the global value of the commercial relations of LAFTA as well as for the intra-trade itself in 1966. The relatively slack performance of intra-trade reflected a decrease of zonal imports of 11 percent for Argentina, and 12 percent for Brazil (Table VIII)[1] which together account for about 60 percent of all intra-zonal trade (Table V).[2] Exports in 1966 declined by 8 percent in Brazil and they increased by 55 percent in Mexico and by 75 percent in Columbia and Uruguay. Although the percentages are large for the latter three countries, their total absolute gain in exports was a modest $43 million.

In 1967 the decline in the intra-trade went further and the stagnation became a slight recession. The decline was absolute, although moderately small at 3.6 percent when measured by exports, 2.7 percent by imports, and 3.1 percent in the over-all trade figure, compared with the previous year. Exports dropped in absolute figures by a little over 24 million dollars, imports by 21.2 million dollars and global trade by 45.2 million dollars. Only three countries augmented their exports from one year to another: Argentina, Chile and Ecuador. The increase in Argentina's exports coincided with the devaluation of the peso early in 1967. Brazil's, Columbia's, Mexico's, Peru's, Columbia's and Uruguay's exports in contrast fell relatively sharp.

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1. See Appendix Table VIII, p. 138.

2. See Appendix, Table V, p. 130.

On the importside six countries, Brazil, Chile, Mexico, Ecuador, Paraguay and Peru augmented slightly their imports from one year to another. This increase was however not high enough to compensate the decline in imports of the other LAFTA - members, Argentina, Columbia and Uruguay. In 1967 only two countries increased both exports and imports, Chile and Ecuador.

The upward trend which came to a halt in 1966 and slipped back to a recession in 1967 was strongly renewed in 1968. Intra-zonal trade in 1968 experienced a total of 13 percent expansion made of an 11 percent increase in imports and 16 percent in exports. Intra-zonal participation in the global foreign trade of the nine countries under consideration amounted to 11.7 percent in 1968, that is, 1.5 percent higher than the 1967 level, though somewhat under the 11.4 percent level attained in 1965.[1]

LAFTA supporters stress the importance of the progress made in intra-trade between 1961 and 1968 and they assert that without the Montevideo Treaty the volume of the "intercambio" would have continued to decline. Some critical observers point out however that in 1968, the total commercial exchange among LAFTA members reached only the 11 percent level registered a decade ago. They maintain that intra-LAFTA trade has barely recovered from the stagnation of the past decade and does not yet represent a dynamic factor in the regional autonomy.

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1. See Appendix, Table I, p. 124.

To appraise the relative merits of these opposing views it may be helpful to analyse the intra-zonal exports and imports by country.

II. Imports and Exports: Analysis of LAFTA-trade

The figures shown in Table III[1] indicate first of all a sharp decline in the reciprocal trade of all members, exception made for Mexico and Paraguay, between 1953 and 1958 and a considerable expansion in trade of Chile, Mexico and Peru between 1958 and 1963. In 1963, LAFTA's third year, the intra-regional trade of Argentina, Brazil, Chile, Paraguay and Uruguay was still below the level of the early 1950's but the intra-trade of the remaining countries - Columbia, Ecuador, Mexico and Peru - increased by 75 percent over the 1953 level. This new intra-Latin-American-trade was not, however, growing rapidly enough to change radically the overwhelming weight of the southern republics in total LAFTA - trade. Argentina, Brazil, and Chile together accounted for 85 percent, 80 percent and 75 percent of the intra-zonal trade in 1953, 1958 and 1963, respectively.

After 1964, Argentina, Brazil and Chile exceeded their pre-LAFTA intra-trade and in 1968 they more than doubled the total value of the trade exchange in 1959. The sum of their relative shares of "intercambio" fell from 80.7 percent in 1959 to 75.4 percent in 1968. The diminution

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1. See Appendix, Table III, p. 126.

of the relative importance of these southern republics in the intra-trade reflects new currents generated by other countries, which as in the case of Mexico and Columbia had almost no participation in intra-zonal trade before the creation of LAFTA.

Countries like Paraguay, Ecuador and Uruguay made between 1964 and 1968 only very small progress. Since over the same period their external trade-position with the United States and Western Europe deteriorated, they insisted on a greater coordination of the trade - liberalization programs and were not willing to accept the second common schedule without the realization of the first program point.

The global view confirms the point that the trade liberalization policy of LAFTA has really intensified the commerical exhange among the signatories of the Treaty of Montevideo. Table IV,[1] however, indicates that some republics took more advantage of this policy than others did. Indeed, Mexico had a rate of increase of its reciprocal trade with LAFTA, which was two to four times greater than that of the other zonal partners. With an index of 758 in 1968 for 100 points in 1961 it took the first place for Columbia (278 points) and for a larger group of five countries (Ecuador, Argentina, Brazil, Peru and Chile) with indices situated between 310 and 171 points. The smallest figures were scored by Paraguay and Uruguay with 167.3 and 151.6 points respectively.

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1. See Appendix, Table IV, p. 128.

In order to be able to appreciate fully the participation of each country in the total intra-zonal exchange it will be necessary to examine the intra-exports and imports of each republic separately.

A comparison of the percentage change in intra-zonal trade between the period 1946/1951-1968 and 1961-1968 (Tables VII and VIII)[1] shows substantially larger values in the latter period - 61 as compared to 134 for imports and 51 as compared to 151 for exports for all LAFTA - countries. During 1961-1968 the most substantial percentage increases in intra-zonal exports have been experienced by Mexico (532), Columbia (314), Argentina (248), and Uruguay (193). For intra-zonal imports during the same period the countries undergoing the greatest percentage change are Mexico (900), Brazil (364), Ecuador (255) and Columbia (208). These figures confirm the evolution of the intra-LAFTA trade we discussed in the precedent paragraph.

However a general evaluation leads to the conclusion that since 1965 this rate of increase has been slowing down for most countries. In this year exports increased only 13 percent as compared to 31 percent in 1964, 20 percent in 1963 and 19 percent in 1962. For imports the corresponding percentage increases were 17 in 1965, 23 in 1964, 25 in 1963 and 16 in 1962. The situation became worse in 1967 when intra-zonal exports and imports had a negative growth rate of 4 percent and 2 percent respectively. LAFTA had a total loss of $24 million in its exports and $21

1. See Appendix, Table VII and VIII, p. 137 and 138.

million in its imports. There were only two countries which increased both exports and imports (Chile and Ecuador), but their contribution to the intra-zonal trade is relatively small. The reason for the 1967 inclination were the sharp fluctuations in the trade of Argentina and Brazil which in the aggregate accounts for almost 60 percent of the total intra-area trade. Another contributing factor has been the application of the escape-clauses so that the liberalization of the trade was handicapped in its evolution.

The situation changed favourably in 1968 when the intra-zonal exports and imports augmented again by 15 and 12 percent respectively. The first available but as yet partial figures for 1969 indicate considerable expansion. The prelimary estimate for total export-import intra-trade is 1.8 billion dollars. Though only the data for Mexico and Paraguay are complete, all of 1969's figures for both exports and imports top those of 1968, exception made for the Uruguayan imports which moved down.[1]

On the basis of this information it can be concluded that LAFTA had been successful in substantially expanding intra-zonal trade.

Corresponding with LAFTA's desire to expand intra-zonal trade is the emphasis on the equitable distribution among all countries so that all will experience development. In this respect tables VII[2] and VIII show

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1. Comercio Exterior, <u>Monthly Report on the Latin American Integration</u>, (Mexico, April 1970), p. 12.

2. See Apendix, Table VII, p. 137.

the percentage distribution of intra-zonal trade among the LAFTA countries. Table VII shows Argentina and Brazil maintaining a dominant role in intra-zonal exports, a trend which does not appear to be changing. While the relative share of intra-zonal exports of Peru has decreased, Mexico and Columbia have enjoyed a substantial increase. In general, the remaining countries have experienced not significant change. In 1968, Argentina accounts for 35 to 40 percent of intra-zonal exports, Brazil between 20 and 25 percent, Mexico, Chile and Peru from 5 to 12 percent each, while Columbia, Ecuador, Paraguay and Uruguay account for 2 to 3 percent each.

The situation is slightly different with imports (Table VIII)[1] the overall trend decreasing for Argentina, Brazil and Uruguay while increasing for Chile, Mexico and Peru. The remaining countries have experienced no appreciable change. The southern republics dominate also the situation by taking 76 percent of the total intra-trade imports for their account, Peru accounts for about 10 percent, while Mexico, Columbia, Ecuador and Paraguay together account for less than 16 percent.

Table VI[2] gives also information about the intra-zonal trade balance changes observed in the different member countries. Perhaps the most notable case is that of Argentina which in the 1952-1961 period showed a consistent annual deficit in its trade balance with the other zonal countries. In succeeding years, with the exception of 1965, Argentina's

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1. See Appendix, Table VIII, p. 138.

2. See Appendix, Table VI, p. 132.

intra-zonal trade showed an equally sustained surplus. Columbia, Chile and Uruguay, on the other hand were unable to eliminate the intra-zonal deficit which existed throughout the same decade and persisted after the Montevideo Treaty went into effect. The unfavourable balance of trade which also characterized Brazil's intra-zonal relations prior to 1961, continued on after the LAFTA - institutions were constituted, except in 1965 and 1966. Peru has shown a trade deficit during almost all years of the Montevideo Treaty in contrast to its pre - LAFTA intra-zonal trade surplus. Ecuador, Mexico and Paraguay have managed to maintain a consistently favorable balance of trade with the zone although Paraguay did suffer a small dificit in 1967 and 1968.

These figures imply that intra-zonal trade is in most cases, an expression of traditional reciprocal trade structures which cannot be modified in a short time.

III. Intra-zonal Trade and Tariff Concessions on the National Lists

In order to determine exactly the degree to which the formation of LAFTA has resulted in the increase in the intra-zonal trade it is necessary to examine the relationship between changes in intra-zonal trade and tariff concessions granted by each country.

Table X[1] shows the cumulative tariff concessions granted by the Contracting Parties in their national lists from 1961 to 1968. Exception made for 1961, which indicates the annual concessions, the figures

1. See Appendix, Table X, p. 140.

for the other years, indicate in the first column the concessions granted in that particular year plus those of the previous year and in the second column the percentage of each country's concessions in the total number of concessions. As shown by the Table, the majority of concessions were granted the first two years and where the over-all percentage increase of the concessions was still 9.1 percent in 1963, it was reduced by half in 1968 (4.7 percent). The Permanent Executive Committee's yearly analysis of national list negotiations indicate that this slowing of the evolution reveals: "....the presence of major difficulties relative to the liberation of trade between Contracting Parties that seriously obstruct the economic liberation process and tend to sharpen as the period of transition established by the Treaty of Montevideo advances. Existing disparities in industrial development levels of regional countries, uncertainty regarding the possible results of trade liberation, adoption of the restrictive mechanism provided for in the Treaty of Montevideo; the absence of practical information and marketing systems, are some of the factors that contracted the field of negotiations in the last period of the Conference ordinary sessions".[1]

Referring to individual participation by Contracting Parties, we find that the major additions to the list since 1962 were made by Argentine (767), Brazil (552) and Mexico (567). The concessions granted by these countries and Ecuador totaled 64 percent of all concessions made during an eight year period. Argentina, Brazil and Ecuador have each

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1. Permanent Executive Committee of LAFTA, Study of negotiations effected during the Eight Conference Period of Ordinary Sessions of the Conference of Montevideo (Montevideo: LAFTA, April 1969), p. 7.

granted over 1700 concessions of 1966 and together these countries still accounted as in 1962 for more than 50 percent of all concessions granted. Peru, however, with the smallest number, had granted only 470 concessions as of 1968.

Comparing Tables V[1] and IX[2] and taking each time the arithmetic mean of the percentages of the intra-zonal trade and of the cumulative tariff concessions over the 1961-1968 period, we see that Argentina and Brazil account for approximately 60 percent of the "intercambio" and 35 percent of the tariff concessions. Peru accounts for twice the amount of exports and imports as compared of tariff concessions granted during the same period (10.1 and 4.6 percent respectively). Chile accounts also for a larger percentage of intra-zonal trade than the cumulative percentage of tariff concessions. The share of intra-zonal trade held by the remaining countries (Mexico, Columbia, Uruguay, Ecuador and Paraguay) is less than the percentage of the percentage of cumulative tariff concessions granted by them. Therefore, the majority of countries have accounted for a larger percentage of tariff concessions than the corresponding percentage of intra-zonal trade.

The larger countries of Argentina and Brazil which are in a better trade position because of their economic size and productive ability, account for a disproportionally large share of intra-zonal trade rela-

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1. See Appendix, Table V, p. 130.

2. See Appendix, Table IX, p. 139.

tive to the number of concessions they have granted. It appears that intra-zonal trade tends to operate in favor of the more developed countries. Peru is the only less developed country has gained a large share of exports than the share of tariff concessions he has granted.

The number of concessions granted is not, however, in itself a measure of the market opportunities afforded to trading partners. As W. Turnage writes: "Any analysis of the number of specific items on which concessions have been granted that does not take into account the qualitative aspects of a concession is subject to a major bias. That is, a large concession on a major product is much more significant than a minor concession on an unimportant item."[1] Also a concession by a large country is more significant than the same concession by a small country.

Table XI[2] gives a breakdown of intra-zonal imports of items covered by tariff concessions and those not covered as compared with extra-zonal imports and total Latin American imports.

The best complete statistics ontrade of negotiated and non-negotiated products (that relate to 1965) show that intra-zonal imports on which tariff concessions have been granted have increased from 76 percent in 1962 to 89 percent in 1965. Correspondingly intra-zonal imports as a percent of total imports of LAFTA have grown from 7 percent in 1962 to 13 percent in 1965. That proves that tariff cutting had a benefical

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1. W. Turnage, op. cit. p. 37.

2. See Appendix, Table XI, p. 139.

effect on the increase in intra-zonal trade. Specifically, regional trade in products on which tariff concessions have been extended more than doubled (from $319 million in 1962 to $683 million in 1965) while trade in nonnegotiated products declined (from $100 million in 1962 to $84 million in 1965).

In my opinion the annual growth in the total value of intra-zonal imports as well as in its percent of total LAFTA imports is essentially due to the number of new concessions granted each year. Indeed, imports of negotiated items have decreased relatively from an increase of 9 percentage points between 1962 and 1963 to no change in 1964-1965 and so did the annual increase in additional concessions which dropped from 8.6 percent in 1962-1963 to 6.8 percent in 1964-1965.[1] Also in 1966, in so far as the statistics are available, we see the same phenomena. Indeed a slow-down in the number of concessions (1966 had only a 3.7 percent annual increase) had a negative repercussion on the share of intra-zonal imports in the total LAFTA imports which decreased from 13 percent in 1965 to 11 percent in 1966.

As regards intra-zonal composition a LAFTA report[2] points out that most of the intra-zonal trade has been in basic agricultural and primary products, and only a relatively small amount represented manufactured items. The period under consideration in this report is from 1961-1966. From the document we should consider the following conclusions:

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1. These percentages are calculated on the basis of Table X, see Appendix Table X, p. 140.

2. LAFTA, Apreciacion de la negociaciones, (Montevideo: LAFTA, July 1967), p. 64-65.

Remembering that the main purposes of the national list program were the elimination of the tariff barriers for substantially all the existing trade and the opening up of markets for industrial products so that new industries could be developed, we think that the foregoing figures indicate that the necessary measures were taken for the realization of both facilities. Indeed the intra-LAFTA trade in low processed goods which constituted the main part of the pre-Montevideo commercial relations (see Chapter IV) seems to develop in parallel with the number of concessions on these products. The liberalization program thus boosted the existing trade-flow.

On the other hand, although the existing intra-trade in industrial products is relatively low, we remark as indicated in a recent ECLA report that the intra-zonal imports of those goods had made a remarkable progress over the period 1962-1966. Indeed the intra-LAFTA imports of industrial products (without metals) rose from 28 million dollars in 1962 to nearly 130 million dollars in 1966, or their proportion in total zonal imports climbed from 18 percent to 25 percent.

The largest increases in exports are recorded in the following groups: office machines (from 17,500 dollars in 1962 to over 7 million in 1966) mainly from Brazil and Argentina: metalworking machinery, mainly machine-tools (from 300,000 dollars to 1.5 million) from Brazil and

Argentina: sewing machines (from 32,000 dollars to 1.3 million): domestic electrical equipment (from 700,000 dollars to 900,000) and condensers (from 3,000 dollars to 1.1 million) from Brazil to Mexico.

Exports of chemical products are highly diversified, the total being made up of a wide range of items, mainly supplied by Mexico. If the total for industrial products excludes metals-copper, zinc and lead, which apart from not receiving large reductions in tariffs, are more in the nature of the primary products - the share of industrial products more than doubled between 1962 and 1966 (increasing from 9 to 20 percent); when metals are included, the share increases by only 40 percent (from 18 to 25 percent).[1]

Imports of machinery and transport equipment rose from 1.3 million dollars in 1962 to nearly 29 million in 1966. These products, which face strong competition from the rest of the world, reinforced remarkably their position in the intra-trade of LAFTA. This evolution proves that the liberation program had a benefical effect on the growth of the intra-trade for these goods.

These figures undoubtedly lose some of their signifance if they are compared with total intra-area imports (some 760 million dollars in 1966) and still more to the total imports (6,790 million in 1966).

Although these relationships do nothing to disprove the central fact that trade in industrial products increased substantially there is however no information available to show how far the new trade in industrial products resulting from the LAFTA liberalization programme has been

1. United Nations, ECLA, Economic Bulletin of Latin America (New York: United Nations, January 1970), p. 25-25.

reflected in additions to production capacity or whether use had been of the existing idle capacity.

V. Intra-zonal trade and Common List

As mentioned, in addition to the removal of tariff restrictions by means of national lists, the Treaty also requires that every three years 25 percent of the items traded be added to a common list. As the tariff concessions by this procedure are computed purely on a percentage basis, countries with high export-import dependence could have severe difficulties, especially if all barriers to intra-zonal trade are removed, as is initially scheduled to occur by 1973. Certainly this would be so if during the interim these countries fail to achieve significant diversification to alter their traditionally weak competitive position.

Actually, operations relative to the common list present a mixed picture. Although the first one in 1964 gained ready approval, the second common list, set for 1967, fail to win acceptance on schedule. In fact it has continued dormant even as the 1970 date for the third common list approaches. Inherent difficulties persist because emphasis is on current trading, as we will see below concerning the 1967 common schedule. Furthermore, most of the goods that have been placed on the list are not the major import commodities in Latin American trade. For example, there has been little effort to cope with the problem of agricultural products. On the contrary, there appears to be general hesitation to confront this problem, as is evidenced by the decision to delay consideration of tariff treatment of agricultural items beyond the 1973 deadline for removal of all barriers.

Typically for the state of affairs were the negotiations on the common list during the seventh LAFTA conference in 1967. Most countries have proposed some major export items on the second list. For example Argentina has proposed wheat; Chile, newsprint and copper; Columbia, meat, cattle, tires and tubes; Peru, lead and zinc; and Uruguay, wool and meat. Venezuela which entered for the first time in these negotiations has included a number of petrochemicals which are not yet traded in the zone in large quantity. Some manufactured products and machinery have been included by Mexico and Brazil has proposed iron steel.[1]

During the Conference primary effort was devoted to the inclusion on the common list of wheat and petroleum, which together account for more than 25 percent of intra-regional trade. For various reasons not all members would agree to include wheat or petroleum, or both in the common schedule. In some cases state trading in these items, which make tariff controls more or less irrelevant, presented an obstacle to agreement. In other cases, the protection of local production, which tends to be high-cost, presented a problem. In the opinion of V. Turnage it may be that petroleum will not be taken into account, although wheat, through a compromise plan, may be in the computation of the second list. Until now, there is no agreement at all and the tendency is that some countries would list objections but would not block the entire agreement.

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1. LAFTA, Sintesis Mensual (LAFTA: Montevideo, 1967), p. 46.

II. Conclusions

1. Although the global foreign trade of LAFTA was still oriented towards the industrial countries, the intra-trade among the member-countries was increased considerably, both absolutely and relatively during the past eight years. Trade among LAFTA-countries recovered from the low point of $659 million in 1961 to $1,692 million in 1968: the share of the "intercambio" in the overall trade doubled almost; it rose from 6 percent in 1961 to almost 12 percent in 1968.

2. Following the extension of 10,000 tariff concessions on individual products negotiated in the eight successive annual rounds before the end of 1968, intra-LAFTA trade expanded, in terms of exports f.o.b. from $299 million in 1961 (6 percent of global export trade of the nine member countries) to $752 million in 1968 (slightly over 11 percent of the total export trade). Although by the mid sixties the trade of some new comers - Mexico, Peru and Ecuador - had grown considerably from the low levels registered at the end of the 1950's the bulk of commercial exchange in 1968 continued to be concentrated in the three southern republics - Argentina, Brazil and Peru - which have a long tradition of reciprocal trade. The Treaty of Montevideo had a minimal repercussion on the intra-commercial relations and the trade among the partners remained unequally distributed.

3. While most of the trade among LAFTA countries continued to consist of traditional and mineral products, the intra-trade in industrial products was progressing slowly during the last three years. The slow

growth of new trade in LAFTA is for a great part attributable to unwilligness of the Contracting Parties to include in the liberalization schedules goods that are processed. The contribution made by trade in manufactures may well be described as marginal where its incidence on the corresponding development is concerned.

In all we may conclude that the liberalization programme has had benefical results in its quantative aspect but showed a lack of dynamism in the changing of the pattern of trade among the members of LAFTA. The Montevideo Treaty has so far played merely a role of a preferential system and not of an integration mechanism.

CHAPTER VI

THE OVER-ALL

INTEGRATION POLICY

In the previous chapter we saw that although the liberalization programme has promoted the intra-trade and generated trade flows in industrial products, its effects have fallen short of the original expectations. From the very outset, LAFTA has always been regarded as an agency whose objectives transcended the bounds of trade liberalization. The intention that it should be an instrument of over-all development and even specifically of industrial growth was present from the start, becoming more and more explicit and taking an increasingly important place in every formula devised by the area for the fulfilment of its objectives.

It was highly unlikely that the assignment of leading role to the liberalization of trade would enable a genuine integration of development processes to be achieved. Such a belief implied that the assumption that if tariff barriers were lifted and trade left to the relatively free interplay of economic forces, investors would be induced to take advantage of the opportunities afforded by the trade thus liberalized. Obstructive attitudes are numberous and in many cases justifiable. For example, how can markets be opened to competitive imports without making sure that the basic inputs for the two competing industries will enjoy the same treatment, or that official incentives to the installation of foreign enterprises will be proportionate to another?

These problems, together with the essentially static character of the liberalization programme led LAFTA to consider what is commonly referred to as a programme for the coordination of economic policies. The basic idea was formulated in LAFTA's resolution 100, which explicit-

ly stated that the objective of the programme should be equitable distribution of the benefits of integration and stipulated that the measures and the incentives to be applied should be all those capable of influencing an integration process, not merely drawing those from trade policy.[1]

The conviction is that it is impossible to advance along the road to integration unless policies are coordinated and national development programmes are harmonised. Given the facts that the diversity of the national economics and vested interests are of such a magnitude that total and immediate integration cannot be accomplished, the members of LAFTA accepted the general principle that the over-all integration policy will have to be gradual, both in scope and in intensity.

Given these considerations it will be possible to follow different ways for the economic unification of Latin America. One way may be the promotion of industrial complementarity. Another method is sub-regional integration which is concerned with the coordination of economic activites in the same zone. Finally there is the possibility of harmonisation of economic policies especially in the field of transport and communications and in the monetary field.

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1. Wionczek, op. cit. p. 72.

I. Complementarity Agreements

The promotion of industrial complementarity is recognised as one of the important objectives of LAFTA. In the words of article 16 of the Treaty, the contracting parties

(a) shall endeavour to promote progressively closer coordination of the corresponding industrialization policies and shall sponsor for this purpose agreement among representatives of the economic sector concerned; and

(b) may negotiate mutual agreements on complementarity by industrial sectors.[1]

This important but clearly unorthodox feature of the Treaty, viewed by its critics as an invitation to the cartelization of industrial production, grew out of theoretical and practical considerations. ECLA's earlier studies[2] demonstrated indisputably the consequences of failing to institute planned regional specialization of basic industries.

If by any chance a rapid liberalization of tariffs on capital goods occured, heavy and basic industries would concentrate around existing industrial centers in Argentina, Brazil and Mexico. The industrial output of greater Buenos Aires, Mexico City and São Paulo represents more than one-half of the industrial production of each country. Remaining manu-

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1. Wionczek, ibid., p. 47.

2. J. Tinbergen, Heavy Industry in Latin American Common Market (New York: CEPAL, March 1960), p. 2.

facturing activity is limited to a number of larger areas. The pattern is similar throughout the region, with the possible exception of Columbia. Complementarity agreements can overcome this problem of economic diversity between countries and the desire for balanced development. These arrangements, covering one product or a group of products, guarantee advantages to the participating countries. The relatively less developed country is negotiating agreements should be able to obtain for itself a share of the benefits or integration.

If on the other hand trade liberalization occured slowly, autarkic national policies would result in an uneconomic multiplication of activities. As we mentioned in Chapter III, what had been happening in the automobile and chemical industry in the mid-fifties were typical examples of such autarkic policies.

The immediate objective of the complementarity agreements is to create region - wide markets for the products of particular industries by eliminating regional trade barriers affecting these products and promoting a planned division of labour across national frontiers between the firms producing them. Gradually as the number of complementarity agreements increases, the integrated sector of the economy will grow, and this process will, it is hoped, react upon and reinforce the movement towards the elimination of trade obstacles across the board.

Various types of complementarity agreements can be envisaged, depending on the particular circumstances of each industry. In some cases inter-country specialization might be organized vertically, in other horizontally. In the former type of situation, each member country might

maintain or establish a fully integrated industry, comprising all stages of particular manufacturing process from raw material to finished product. Specialization would be secured through an agreement whereby each firm would undertake to concentrate on a limited number of products, instead of manufacturing the entire range. Countries would satisfy their needs partly from domestic production and partly through trade with their neighbours, each of the specialized firms would thus gain the advantages to a region wide market. Moreover, there would be provision for continuous consultation on the market outlook and supply products for the industry, and the material adjustment of investment plans so as to avoid overlap and duplication.

In cases of horizontal specialization, on the other hand, various stages of a particular industrial process might be looked on different countries. Each country might, for example, specialize in the production of certain components, while assembly plants for the finishing stages might be set up in several countries, using both domestically and imported components. Each of the participating countries would, in other words, export some components and import others, while all would do at least some types of assembling. There again the advantages of access to a region-wide market would become available to the manufacturers of components and investment plans would need to be shaped in such a way as to ensure a balance between productive capacity at the assembly stages and the supply of raw materials and components.[1]

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1. S. Dell, op. cit., pp. 126-128.

Reality is, of course, much more complex than either of the two hypothetical situations described above. In practice, elements of both vertical and horizontal specialization are likely to be needed. In some of the larger countries, moreover, the size of domestic markets may warrant a relatively broad range of industrial activities being located close to those markets, whereas industries in smaller countries may have to be somewhat more specialized if they are to benefit from the advantages to the region as a whole.

The basic rules governing complementarity agreements were, as said, laid down by the Montevideo Treaty and subsequently revised at the fourth session.

The initial regime established that products coming under the complementarity agreement must be included in the National Schedules; this automatically meant that all countries benefited from the concessions in the agreement.

Two complementarity agreements were signed under the régime. The first, concluded in July 1962, covered statistical and similar machines, together with parts, accessories and punched cards and was signed by Argentina, Brazil, Chile and Uruguay. Under this agreement, import duties were abolished between the LAFTA countries but retained for imports from third countries. The agreement has operated normally and trade has steadily increased since it came into force in 1962; in 1963 imports of

such products totalled almost 360,000 dollars while in 1966 (the most recent year for which data are available) they had grown to over 1.3 million dollars.[1]

The second agreement was on electronic valves for radio and television set, including parts and components and was signed by Argentina, Brazil, Chile, Mexico and Uruguay. In addition to import-duties for the elimination of import duties between the signatory States, the agreement includes provisions to harmonize duties on imports from third countries. The agreement initially excluded certain types of value, on the understanding that they would gradually be included over a six-year period. The list of exceptions has already been revised twice.

Unlike the first agreement, the second contains provisions designed not to prevent the introduction of restrictions on imports of parts and components from third countries, but rather to encourage production on the LAFTA area by establishing certain requirements and at the same time setting up a commission to administer the agreement.

During 1965 (the first complete year on which the agreement was in force) imports totalled 1.2 million dollars and rose to almost 1.7 million in 1966.

These were the only two agreements which were signed during the period of effect of the first resolutions, that is over almost four years.

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1. Comerico Exterior, Monthy Report on LAFTA (Mexico: Banco National, November 1963), pp. 78.

By the end of 1964, so far as the working of complementarity agreements was concerned, there was very little to report. Progress in developing large-scale industries on the basis of access to region-wide markets was conspicuous by its absence, as were agreements for specialization as between similar industries operating in the various member countries. Industrial meetings were leading nowhere and were often being used by business men largely to ensure the maintenance of the status quo. Therefore LAFTA itself took an new initiative and by voting a new resolution it opened new prospects for complementarity agreements by eliminating the provision making it obligatory to include products that countries not participating in an agreement would benefit from its provisions only if they offered adequate compensation. The resolution also contained another exception to the clause of the most-favoured-nation by providing that the relatively less developed countries would be eligible unconditionally for all benefits negotiated in the complementarity agreements, irrespective of whether they were parties to them.

This new system, which did away the automatic extension of benefits, promoted increased confidence among countries and enterprises. In 1965, the LAFTA-members recommended the conclusion of some thirty complementarity agreements liberalizing more than thousand items. However, the govnments accepted only two of them, both between Brazil and Uruguay, one covering household electrical, mechanical and heating appliancies and the other covering certain products of electronics and electrical communication industries.[1]

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1. Fondo de Cultura Economicia, Factores para la integración latinoamericana (Mexico: Focule, 1968), pp. 86-88.

After a short transitional period, a number of factors led governments to be rather hesitant about embarking upon further complementarity agreements. One was the fear that the 1964-resolution might lead to a large number of bilateral agreements which would distort the concept of multilaterism that prevades both the spirit and the letter of the Treaty. Another was the concern that there might be two or more agreements on the same product which, if different countries were involved, would mean a number of requirements with respect to origin and, thus run counter to one of LAFTA's basic principles.

The result was that in 1966, at the sixth regular session of the LAFTA Conference, Governments did not negotiate on any of the products in the proposed agreements, although they did implement more than half of the liberalization recommendations made by the sectoral meetings regarding the inclusion of products in the National Schedules.

Starting in late 1966 and continuing throughout 1967, however complementarity agreements made a notable comeback, and proposals began to make to transform them into something more than mere instruments for more tariff liberalization.

At the end of 1967 the fifth complementarity agreement was signed, covering a large sector of the chemical industry. This agreement, which was also the outcome of meetings between LAFTA and businessmen, is of particular importance both because it is the first to which all the countries and parties and because of the whole range of products which have been liberalized irrevocably.

The sixth agreement - on petrochemicals - signed by Bolivia, Chile, Columbia, and Peru in 1968, is of a special mixture since it contains a complete plan for the development of those branches of the petrochemical industry covered by the agreement through the planning of investment, the coordination of production policies and the location of plant in the various countries. These features demonstrate the very special potential of this kind of agreement as an instrument for integration or development, in contrast with the other agreements which eliminate tariff barriers.[1]

In August 1968, Argentina and Uruguay signed the seventh complementarity agreement covering household goods. It is the standard type of liberalization agreement with revocable concessions.

Also at the negotiating stage are two agreements developed at sectoral meetings, one on glass products (Argentina, Brazil, Chile, Columbia, Mexico, Peru and Uruguay) and one on electronic products for household use (all countries). There are also a number of draft agreements which are at the stage prior to negotiating proper: on products of the household refrigerator industry (Argentina, Brazil and Mexico); on electricity generator, transmission and distribution equipment (Brazil and Mexico); on the plastics industry (Argentina, Chile, Columbia, Mexico, Peru, and Uruguay); and on canned and preserved fruit and vegetable (Argentina, Brazil, Chile, Columbia, Mexico, Paraguay and Uruguay).[2]

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1. Comercio Exerior, op. cit., pp. 9-10.

2. Comercio Exerior, Monthly Report on LAFTA (Mexico, January 1970) p. 6-7.

Looking to the over-all result of the complementarity agreements we may say that although the progress in the last years was promising, the agreement themselves are defective. They failed to provide clearly for planned expansion, specialization and diversification of the respective industries, and for the mutual confrontation and adjustment of investment plans in the various countries (exception made for the sixth agreement).

One of the basic shortcoming of industrial complementarity agreements is that an exact balance of advantages and disadvantages cannot be struck for each country for each industry. It is inevitable that certain countries will gain more than others under one agreement and less under another. What is important is to achieve reciprocity over-all, so that the same countries - the most powerful ones - are not the winners every time.

Although the less developed countries are generally favorable to participating in complementarity agreements, the few agreements now in existence apply basically to more developed countries and are not a link between them and less developed countries. The reason for their being so few agreements lies in several technical problems related to their operation as well as with the massive task of organizing such agreements.

Concurrently with these activities in connection with complementarity agreements another approach was developed in line with the decisions of the meeting of planning and development agencies held at Lima in 1963

and the fourth regular session of the LAFTA Conference. This approach was born of the conviction that tariff liberalization alone was not enough to achieve all the aims of integration.

The application of resolution (IV) reflected the desire, to seek and apply measures to promote the harmonious economic and social development of the member countries. The method proposed is a gradual expansion of economic complementarity. The resolution formulated the programme of action for the promotion of sectorial integration and indicated the institutions which should reactivate the action.

The institutions comprised the study groups of the LAFTA Advisory Commission on Industrial Development (CADI) which covers four industrial sectors: steelmaking, pulp and paper, petrochemicals, and other chemicals. Each study group was to propose specific integration formulas for its respective sector on the basis of information and data to be supplied by all the LAFTA countries.

At its third meeting in June 1967, CADI considered the progress achieved by each of the groups which, in the case of groups on steelmaking and petrochemicals, consisted of some proposals which could be considered as elements or formulas for integration, and had originated not only in the groups themselves but also in the LAFTA Secretariat, which compiled the proposals in the form of a report.

Certain subsequent events as, for example, delay in the receipt of information from countries, made it necessary to postpone the meetings of CADI, and hence progress in the respect has been relatively small.

The growing number of difficulties encountered by the LAFTA integration process led some countries in the region to seek a new approach through the formation of subregional markets. We will analyse this evolution in the following section.

II. Subregional Integration

As the integration movement has progressed in Latin America, one of its most outstanding aspects has been the question of reconciling the over-all objectives with the aims that are of concern to each of the individual participating countries. Thus a prominent place has been taken by the difficulties attendant upon an integration movement among economics with dissimilar structures, and marked social and political disparaties. These divergences raise the problem of the equitable participation of the various countries in the benefits of integration and necessitate the narrowing of economic gaps in order to safeguard the satisfactory progress of the movement and the full attainment of its objectives.

In the search for new solutions, the subregional movement, built up around a fusion of national markets and an agreed development strategy, should constitute, in the existing circumstances, not only a method of overcoming the above mentioned difficulties but, what is more, a means of combining the integration process with the indispensable dynamism and efficacy. .

In 1964 at Bogotá, the Conference of Contracting Parties of LAFTA first recognized the possibility of organizing subregional agreements. In the field of the over-all integration, the Conference set up two main objectives: to expedite the integration process and tighten up economic cooperation on a subregional basis within the framework of LAFTA.

As a means of attaining the first of these objectives it put forward a proposal for the conversion of LAFTA into a customs union. In the pursuit of the second objective it was decided that a programme should be set up to coordinate the policies of the member countries interested in the field of subregional integration.

In 1967, Chile, Columbia, Ecuador, Peru and Bolivia agreed about the principles for subregional cooperation and on 26 May 1969 they signed the Cartagena (Columbia) agreement by which the Andean Subregional Group was formed.

The goal of the subregional market will be the complete elimination of duties, charges and restrictions affecting trade between the parties to the agreement. It is to be brought into full operation by December 1980. The liberalization provisions stipulate that within the first two years of application of the Agreement complete free access shall be accorded to products on the LAFTA Commun Schedule and to those not produced in any country of the subregion and not reserved for production in particular countries or subject to programming.

The primary aim of the other mechanism set up under the Agreement is to solve the structural growth problems of the participating countries, by means of systematic action concerted through programming within the framework of the common market.

Industrial development is assigned an important place in the Agreement. The contracting parties pledge themselves to set up and diversify their industrialization process though the joint formulation and implementation of sectorial industrial development programmes aimed at achieving the following objectives: promoting the expansion and specialization of manufacturing production; among the best possible use of the resources available in the subregion; increasing productivity, taking advantage of economic scale and equitably distributing the benefits of integration among the parties of the Agreement.

In the agricultural sector, the objective pursued by the parties to the Agreement are the formulation of a common policy and the preparation of an indicative plan. Accordingly they are to harmonise their national policies and coordinate their agricultural development plans, with a view to raising the level of living of the rural population, increasing production, promoting specialization and diversification of exports.

To solve the infrastructural problems which are affecting the subregional integration process, the countries of the subregion will take concerted action in the form of the adoption of specific programmes and projects, mainly in the field of energy transport and communications. These programmes will be administered and executed by multinational agencies or enterprises.

The countries of the subregion undertake to coordinate their national financial and payments policies, systematically and progressively with a view to chancelling public and private savings into the financing of subregional investment and trade.

The Andean Group looks forward to the following benefits as a result of subregional integration (a) less vulnerability to foreign frustrations (b) better position for discussing with developed countries and (c) more options for advancing a rational industrial policy.

In its present relation to LAFTA, the Andean group has appeared somewhat controversial in that the less developed nations led by Chile and Columbia want integration to move as quickly as possible, while the more developed countries - led by Argentina and Brazil - have favoured a more careful approach to economic integration.

The growth of the Andean group itself is related to the dissatisfaction with the structure and the mechanism of integration specified by LAFTA. In this respect, LAFTA's problems stem primarily from the fact that the member countries are too diverse economically to be united easily. If countries integrate at the subregional level, their similar level of development and the enlarged size of the market will be more stimulating to industralization of the countries involved, thus enabling them to compete more effectively with the larger economies of Argentina, Brazil and Mexico. Expanding on this point, factors favoring successful integration of the Andean Group countries are their geographical nearness, similar histories, comparable economies and cultural background. This

association, consisting of countries approximately equal economically permits some latitude for integration without risking at the same time an inhibitive inflow of competitive products from the more economically developed countries.

Thus far LAFTA has responded by endorsing subregional integration whenever it has promised to conform to generalized guidelines as outlined by LAFTA. In fact, the general feeling has been that subregional integration may prove to be the best way in helping low-incomes countries to ease into a true common market. Indeed subregional integration makes it possible for them to cooperate and to take advantage of identifiable benefits negating their overall development progress.

III. Harmonisation of Policies

While the promotion of industrial complementarity and subregional integration are recognized as important objectives of LAFTA, transport cooperation and cooperation in the financial field are not mentioned expressly in the Montevideo Treaty.

A. Transportation and Communications

In order to reap full benefits of a free trade area or a common market - in the future - it is necessary that integration also extends to facets of infrastructure, particularily to the transport and communication sectors.

The over-all status of transportation and communication facilities in Latin America currently is that of general inadequacy, either for development or for integration per se. To illustrate, transportation facilities prevailing within given countries reflect an orientation to foreign trade, (routes run to the coast) rather than serving as parts of a national network for domestic trade. Indeed, the orientation is to distant foreign trade not to foreign trade of regional scope.

The case of regional maritime cooperation offers an interesting example of the existing situation. Betwen 90 and 100 percent of the region's total trade is carried by sea. Moreover, because of the lack of adequate inland communications systems, maritime transport accounts for almost 90 percent of intra-Latin American trade.

At the time of the Montevideo Treaty negotiations, it was generally agreed that since transport facilities follow rather than precede trade, maritime transport matters should be left for the future consideration of interested governments and shipping lines in the area. The Treaty itself does not contain many recommendations in this field.

During the last years various drafts of a Latin American ocean and inland - water shipping convention were elaborated by LAFTA's Adivsory Transport Commission but the participating parties were never able to agree on a text. The difficulties were always in the formulation of a cargo preference system. Initially, the convention was supposed to call for bilateral cargo preferences among given pairs of trading partners. If the national flagships of the directly interested parties were unable to

carry the intra-zonal cargo, another LAFTA member might provide the shipping facilities. Later a proposal was made for multilateralization of cargo preferences within the zone, but it was rejected by the southern republics because of their earlier bilateral cargo preferences agreements with neighboring countries. Until now, there is no definitive convention which is agreed by all member countries.

National jealousies and the absence of well-defined shipping policies in major Latin American republics, are respnsible to a considerable extent for the years of frustrating negotiations. But these regional obstacles probably would have been overcome if the international maritime conferences, supported in most cases by the governments of the major maritime powers, had not expressed extreme hostility to every draft of the regional maritime convention. In addition open threats of reprisals were made against LAFTA countries which attempted to introduce unrelated measures that seemed discriminating against foreign-flag shipping.[1]

Inland transport facilities are generally inadequate, and an appropriate upgrading is not easy to achieve. Physical obstacles rooted in geography are present: vast distances, mountainous terrian, dense jungles and so forth. Present also are financial obstacles; to accomplishment of what is required will have a high cost and such costs comes at a time when there are enormous demands for financing from many directions.

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1. M. S. Wionczek, op. cit. p. 38.

To be sure, development action is occurring in transportation; major examples include remaining links in the Pan American Highway and the considerable effort associated with construction of the so-called Marginal Highway of the Jungle. The same is true of communication, the problems are great, but action is occuring as, for example, with the effort to develop a regional telecommunications system. However, a great deal remains to be done before adequate regional transportation and communications systems can be regarded as existing.

At all events, transport and communications are among the areas in which a concentrated effort by the LAFTA countries is most needed, and where joint projects might be most possible. Such projects would, moreover, seem to be ideally suited for financing by the international lending agencies.

B. Zonal Payments System

Besides challenges in the structural realm, Latin America has had problems of a monetary nature in its integration movement. Indeed one of the most important factors for the development of a free trade area or a common market is the establishment and successful operation of an integrated payments system.

Trade throughout Latin America is generally carried on in U.S. dollars, directly or indirectly. So long as countries have to be paid in dollars for their products, LAFTA's development will be slowed, and

the areas chronic lack of dollars will remain a major bottleneck for the intra-LAFTA trade. For this reason financial integration would serve as an effective means for increasing trade and transactions.

In Mexico in 1961, during the second meeting of the Council on Monetary and Financial Policies, an agreement was adopted by the member countries to build a zonal payments system. This agreement consisted of a simple mechanism of multilateral compensation and reciprocal credits in convertible currencies to settle accounts.[1] The central banks of the member countries agreed to use United States dollars as the currency for clearing accounts. They agreed to establish ordinary lines of reciprocal non-interest-bearing credit which would be processed through bilateral agreements, with accounts settled via cable transfers every two months. It was agreed that no arrangement should interfere with the practice of payments and transfers that exist in each country of the zone.

The Central Bank of Peru has been designated to serve as Agent Bank for the multilateral transfers among the other central banks of LAFTA. The objective of multilateral compensation is to reduce to a minimum the number of transfers between central banks. Forty-eight hours following the last of every month, each central bank reports by cable to the Agent Bank the total of debts that corresponds to payments effectively carried out and registered. The central Bank of Peru then determines the net balance for each bank and cables within the next twenty-four hours to

1. LAFTA _Sintesis Mensual_, December 1965, pp. 13-17, pp. 42-46.

have the net debits and credits transferred to the respective accounts with the Federal Reserve Bank of New York - designated the common corresponding bank for all central banks.[1]

As of July 1967, there had been negotiated 15 bilateral agreements providing about $25 million for multilateral transfers. This system is under periodic examination and revision so that at the end of 1968 the amount had more than doubled. There are plans to authorise non-LAFTA members to pariticpate in the system of compensation.

If LAFTA can proceed further with this system of zonal payments, one of the major sources of opposition to the lowering of trade barriers would be removed and it would be reasonable to expect LAFTA countries to go much further in trade liberalization then they have been prepared to do until now.

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1. LAFTA, Sintesis Mensual (Montevideo, July 1967) pp. 355-357.

CHAPTER VII

CONCLUSIONS AND PROSPECTS FOR LAFTA

LAFTA's nine years of experience have demonstrated that an attempt to accelerate economic growth by integrating a number of developing countries is an extremely difficult task that involves political as well as economic issues.

At the moment and after analysing the evolution of LAFTA it is my opinion that LAFTA is in a profound crisis situation. Indeed, in the last few years, especially in 1967 and 1968, LAFTA's liberalization programme has had some difficulties to face which were reflected in a slow down of the share of the intra-trade in LAFTA's total foreign trade and in the small progress made in the annual negotiations for the national list. There are also basic disagreements concerning the common schedule. Until now, despite the work put into the negotiations by the Contracting Parties, the unanimity required for approval of the second phase of the common list was not achieved. If so much difficulty is encountered in finding a common list of items, accounting for only half of existing trade, what is the outlook for increasing the coverage of the Schedule to 75 percent and in the end, to substantially all trade within the region?

Within LAFTA, a sizable group of countries at intermediate or less advanced stages of economic development (the Andean group) is seeking to establish, on the basis of its members' mutual affinities and at a sub-regional level, a more intensive integration programme. But here too, problems arise, including some of the difficulties already encountered by the region as a whole.

The difficulties in the common schedule and the reaction of the Andean group against LAFTA are the consequence of frictions, arising from the strength of economic nationalism and the inequality of economic power among LAFTA's members, which were already felt from the beginning of the Treaty. LAFTA became more and more a weak preferential zone, a largely ineffective umbrella over the heads of several groups with conflicting immediate interests: three large countries (Argentina, Brazil and Mexico), the so-called middle group (Columbia, Chile, Peru, Uruguay and Venezuela) which need regional economic cooperation more than the others; and the most backward states (Ecuador, Paraguay and Bolivia). The middle and small LAFTA members claim that the freeing of regional trade brought them no tangible benefits. That is confirmed by our statistical findings in Chapter V. While there are reasons enough to believe that the larger republics reaped some benefits from the LAFTA liberalization, these countries think that the gains are not important enough to force them to offer any meaningful compensation to the remaining LAFTA - members. One of the basic problems is thus the unequal distribution of benefits from the integration program.

Some economists are inclined to see the evil in the process whereby annual negotiations are required for bringing about reductions in trade barriers. A. Ferroro writes: "The mechanism for the reduction of duties, charges and other restrictions that have been applied is inappropriate for the goals set forth in the Monteviedeo Treaty, because it is not automatic and across the board".[1] In his thinking it would have been better,

1. A. Ferrero, The International Trade of Latin Americo (New York; C E D, 1968), p. 85.

to adopt a system similar to the European Common Market's; in other words there should be a commitment to reduce tariffs on all products traded and not only intra-areas ones. Even better would be a tariff reduction across the board on all items, regardless of their commercial importance, in order to create conditions favorable to the establishment and promotion of industries. This would guarantee a gradual and obligatory reduction of duties and charges and it would also stimulate intra-area competition. There should be the added commitment that no duty could be higher than a certain maximum level for each on stage of the liberalization period as a matter of equity for countries with lower tariffs.

I disagree however with this point of view and I prefer to join the arguments put forward by S. Dell. This author stresses that the underlying conditions necessary for automatic methods to work smoothly in Latin America have not yet been created. He writes: "The adoption of automatic methods in Latin America, coupled with reliance on the spontaneous reaction of market forces to changes in tariff and quota restrictions, would be likely to benefit the strong against the weak, the industrialized against the industrially less developed."[1] The automatic dismantling of tariffs can only achieve its goal only if other steps of a non-automatic character are taken to solve the problems of regional dualism and the existing difficulties in agriculture and industry. There is a need for national and regional planning for the most effective utilization of resources in meeting furture demands.

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1. S. Dell, A Latin American Common Market?, op. cit. p. 208.

Even the stronger countries in LAFTA might well have reason to fear automaticity in the reduction of trade barriers. For while the industries of Argentina, Brazil and Mexico may be able to cope with competition from indigenous enterprise in other LAFTA countries, they are bound to feel much less comfortable about the possibility of competition from international companies setting up branches or subsidiaries in, say, Paraguay or Peru with a view to taking over region-wide markets.

Thus all LAFTA countries may feel that automaticity can be achieved only as a part of a comprehensive programme of regional development.

We must take in consideration the possibility of subventions to the industries. This instrument permits the governments to sustain the dynamic industries and to protect them from the competition of the foreign firms.

Concerning the difficulties in the Common Schedule negotiations two solutions have recently been suggested.

The first proposal would limit the commitments of the LAFTA countries to the system of trade preferences within the area. Such a situation, for which no provision is made among the exceptions to the application of the most-favoured-nation clause, might give rise to problems not only for the member-countries themselves but also in respect of third countries with which the members of the association have signed agreements containing the most-favoured-nation clause.

The second suggestion would defer the legal deadlines for implementation of the liberalization programme, without affecting the preferential character of the tariff concessions negotiated. This measure should be supplemented by some sort of machinery for programmed liberalization based on the attainment of specific targets.[1] This approach necessarily suggests a programme of action at a more over-all level, offering real possibilities of removing the existing obstacles, one after another, within the new time-limits.

Additional difficulties have resulted from the concentration of the Treaty of Montevideo on the liberalization of exising trade. These particular difficulties would not have arisen if the Treaty had emphasized the liberalization of trade in industrial goods, which was the type of trade that was most essential for the success of the integration programme. In effect, what the LAFTA countries needed most was to eliminate their mutual restrictions on goods imported from third countries rather than on the goods currently imported from one another. In other words, they needed to create incentives for LAFTA industries to displace manufactured imports from third countries. Here were markets that could be tapped without causing internal dislocation of either agriculture and industry.

In my opinion it is however clear that all these changes, have to occur within a framework of action generally agreed among the LAFTA countries: they could not be left to spontaneous forces operating

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1. Ibid., p. 115.

through automatic reductions in trade barriers. It seems doubtful that any substantial progress can be achieved without redrafting the Montevideo Treaty to include a detailed program to which participating countries subscribe without reservations. This is not a matter of trying to produce a detailed blueprint for the entire area of Latin America, but rather of fixing the main lines and proportions of Latin American growth during the coming five or ten years, and the place of individual country in the over-all picture.

This objective could be approached step by step, through a phased programme of gradually expanding scope. A beginning could be made by developing specific projects for investment in new infrastructural and industrial facilities. Also the experience in the Andean group, where efforts are made to move towards agreements by groups of countries covering a limited number of key industries, can be explored further. Only after considerable success had been achieved along these lines would it be possible to move on to more far-reaching measures of joint planning covering the economy as a whole.

Of course, it may be unrealistic to talk of regional planning in Latin America at a time when even national planning cannot be said to have a very firm foundation in most countries of the region. But if regional planning is unrealistic for Latin America, so also is a common market in the area unrealistic. For it is almost unthinkable that the Latin American countries could afford to allow the forces of regional free trade to determine the distribution of regional gains from integration in an unplanned manner.

It should be emphasized finally that regional integration can succeed only within a general context of political and social change in Latin America. Economic progress in Latin America depends on much more than the lowering of trade barriers: reduction of tariffs and other obstacles to trade would be meaningless without a far reaching restructuration of the economies and improvement in the distribution of income. Latin America cannot establish a common market that has any meaning in the midst of economic and social stagnation. In the absence of such reforms, the Treaty of Montevideo will be unproductive.

Can the conditions necessary for successful Latin American economic integration be fulfiled within a reasonable period of time? Instead of giving a clear-cut answer to this central question, it might be better to describe the forces which work both for and against the integration process in Latin America.

Anti-LAFTA pressure groups are composed of supernationalistic politicians definding the alleged sovereignty of their country, large landowners, powerful tradition-oriented domestic industrialists and small enterprises.

The pro-LAFTA coalition consists of economists who subscribe to ECLA's views, technocrats and progressive politicians, new middle-size domestic industrial enterprises and large foreign industrial cooperations seeking entry into Latin American markets.

In the language of traditional politics, the radical right and the radical left are against LAFTA: the right is afraid of the consequences of social and economic change, the intellectual left because it predicts that the Latin American common market eventually will be taken over by powerful interests. Within this complicated socio-political context the battle is joined.

Given the political will to change, economic integration can provide a powerful reinforcement of other measures by releasing the dynamic forces of regional specialization and exchange. Economic integration will not give Latin America an easy road to higher living standards or render unnecessary the painful adjustments that political and social circumstances of the region have shown to be necessary. It can increase the power of the economic forces of development, once those forces are well and truly mobilized. It can never substitute for them.

APPENDIX I

TABLE I

FOREIGN TRADE OF LAFTA 1961-68

IN MILLIONS OF U.S. DOLLARS

Year	Intra-trade	Extra-zonal Trade	Total Trade	Index Total Trade 1961=100	% of LAFTA trade in total trade
1961	659	10,269	10,928	100	6.0
1962	774	10,332	11,106	102	7.0
1963	950	10,260	11,210	103	8.4
1964	1,204	10,658	11,862	109	10.2
1965	1,403	11,973	12,376	113	11.3
1966	1,460	12,313	13,773	122	10.6
1967	1,414	12,453	13,867	127	10.2
1968	1,698	12,734	14,332	131	11.7

Source: Calculated from: LAFTA, Serie Estadistica, 1969 (Montevideo: LAFTA, 1969) n°1, p. 3 and document CEP/Recpartido 887 (Montevideo: LAFTA, 14 Mars 1969), p. 63.

TABLE II

LAFTA INTRA-ZONAL TRADE 1952-68

IN MILLION U.S. DOLLARS

Year	Regional Exports (Fab)	Regional Imports (cif)	Regional Trade	Index 1961=100
1952	359	449	808	122.7
1953	505	525	1,030	157.0
1954	495	539	1,034	157.0
1955	508	574	1,082	164.2
1956	358	408	766	116.3
1957	397	441	837	127.1
1958	374	403	777	117.9
1959	324	355	679	103.1
1960	340	375	715	108.5
		Treaty of Montevideo		
1961	299	360	659	100.0
1962	354	420	774	117.5
1963	425	525	950	149.5
1964	558	646	1,204	182.7
1965	635	768	1,403	213.0
1966	675	785	1,460	221.0
1967	651	763	1,414	214.5
1968	752	846	1,698	256.2

Source: Calculated from LAFTA, CEP/Reparido 976 (Montevideo, 14 August, 1969), pp. 67-69.

TABLE III

TOTAL VALUE OF TRADE AMONG LAFTA COUNTRIES

1952-1968 IN MILLION U.S. DOLLARS

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1952	292.5	210.9	15.7	96.4	9.7	6.6	16.5	83.7	75.1
1953	408.5	318.2	19.6	129.2	10.8	4.7	19.3	68.5	55.2
1954	358.0	296.6	19.2	152.7	15.8	8.8	30.2	61.0	91.4
1955	382.4	339.9	15.3	141.2	14.9	6.5	30.2	73.1	78.4
1956	253.4	216.9	17.9	102.7	11.7	9.1	24.6	67.1	63.8
1957	310.0	253.9	16.0	90.6	13.7	8.3	24.2	74.8	45.4
1958	294.3	249.7	10.1	79.8	10.1	7.3	23.0	59.1	43.8
1959	244.9	192.1	11.7	94.1	10.7	8.8	16.1	67.4	33.3
1960	269.1	194.7	11.1	112.4	8.0	9.3	17.5	60.9	32.3
1961	226.0	140.4	16.3	129.8	11.6	12.0	19.7	63.3	40.3

TABLE III (Continued)

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1962	244.6	204.4	19.8	119.9	10.0	22.8	16.9	94.0	42.0
1963	287.4	239.9	27.4	129.2	21.3	36.7	20.1	111.1	46.8
1964	389.1	300.4	44.0	183.3	21.3	51.6	26.4	122.7	64.8
1965	486.8	387.8	54.8	174.8	22.0	66.0	29.4	134.9	47.6
1966	469.3	384.5	81.1	194.5	20.8	90.2	33.2	143.6	82.7
1967	483.4	325.8	50.7	220.5	27.2	85.8	32.1	127.4	61.1
1968	657.0	396.0	61.7	221.3	36.0	91.0	33.0	141.0	61.1

Source: Calculated from LAFTA, Serie Estadistica, 1969 (LAFTA: Montevideo, 1969) n^{o} 1, p. 7 and DOC/Repartido 976 (Montevideo, Augustus 1969), pp.67-69.

TABLE IV

EVOLUCTION OF LAFTA-TRADE

PER COUNTRY 1952-1968 (1968=100)

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1952	129.4	150.2	96.3	74.5	83.6	55.0	83.7	132.3	186.1
1953	180.7	226.1	120.2	99.9	93.1	39.1	97.9	108.1	136.9
1954	158.4	212.2	117.7	118.0	136.2	73.3	153.2	96.3	226.7
1955	169.2	242.0	93.8	109.2	128.4	54.1	153.2	115.4	194.5
1956	112.1	154.4	109.8	79.4	100.8	75.8	124.8	106.0	158.3
1957	137.1	180.8	98.1	70.1	118.1	69.1	122.8	118.1	112.6
1958	130.2	177.1	61.7	61.1	87.0	60.9	116.7	83.3	108.6
1959	108.3	136.8	71.7	72.7	92.2	73.3	81.7	106.6	82.6
1960	119.0	138.6	68.0	86.8	68.9	77.5	88.8	96.2	79.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE IV (Continued)

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1962	108.2	145.5	121.4	92.7	86.2	190.1	85.7	148.4	104.2
1963	127.1	170.8	168.0	99.9	183.6	305.8	102.0	175.5	116.1
1964	172.1	213.9	269.9	141.7	183.6	430.0	134.8	193.8	160.7
1965	215.4	276.2	336.1	135.1	189.6	550.0	149.2	213.1	118.1
1966	207.6	273.8	497.5	150.4	179.3	751.8	168.5	226.8	205.2
1967	213.8	232.0	311.0	170.5	234.4	715.0	162.9	201.2	151.6
1968	290.7	282.0	378.5	171.1	310.0	758.3	167.3	222.2	151.6

Source: Calculated from LAFTA, Serie Estaolistica 1969, op. cit., p. 9.

TABLE V

PERCENTAGE SHARES OF LAFTA-COUNTRIES TRADE

IN TOTAL INTRA-TRADE: 1952-1968

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1952	36.1	25.9	1.9	11.9	1.2	0.8	2.0	10.3	9.3
1953	39.6	30.9	1.9	12.5	1.0	0.4	1.8	6.6	5.3
1954	34.6	28.7	1.8	14.8	1.5	0.8	2.0	5.9	8.8
1955	35.3	31.4	1.4	13.0	1.4	0.6	2.8	6.7	7.2
1956	33.1	28.3	2.1	13.3	1.5	1.1	3.2	8.7	5.9
1957	37.0	30.3	1.9	10.8	1.6	0.9	2.9	7.0	5.2
1958	37.8	32.1	1.3	10.2	1.3	1.1	2.1	8.6	4.3
1959	36.0	28.2	1.6	16.5	1.2	1.3	2.5	8.9	4.7
1960	37.6	27.2	1.5	15.7	1.1	1.3	2.4	8.8	5.8
1961	34.3	21.3	2.4	19.6	1.7	1.8	2.9	9.6	6.1

TABLE V (Continued)

Year	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1962	31.6	26.4	2.5	15.4	1.3	2.9	2.1	12.1	5.4
1963	30.2	25.2	2.8	17.8	1.2	3.8	2.1	12.9	4.9
1964	33.4	25.8	3.7	15.7	1.8	4.2	2.3	10.5	5.8
1965	38.1	25.6	4.3	13.6	1.8	4.5	2.6	9.6	3.7
1966	32.1	26.3	5.5	13.3	1.4	6.2	2.3	9.8	5.6
1967	34.1	23.0	3.5	15.6	1.9	6.0	2.2	9.0	4.3
1968	38.9	23.4	3.6	13.1	2.1	5.4	1.9	8.3	3.6

Source: Own calculations from Tables II and IV.

TABLE VI

TRADE AMONG LAFTA-COUNTRIES 1959-1968

IN MILLION U.S. DOLLARS

Year	Trade	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1952	Export FOB	84.1	124.4	2.8	28.5	6.9	5.1	10.8	66.3	29.8
	Import CIF	208.4	86.9	12.9	67.9	2.8	1.5	5.7	17.4	45.3
	Balance	-124.3	+37.5	-10.1	-39.4	+4.1	+3.6	+5.1	+48.9	-15.5
1953	Export FOB	238.9	108.7	2.2	67.1	8.0	3.6	14.0	50.9	15.7
	Import CIF	169.6	209.5	17.4	62.1	2.8	1.1	5.3	17.6	39.5
	Balance	+69.3	-100.8	-15.2	+5.0	+5.2	+2.5	+8.7	+33.3	-23.8
1954	Export FOB	175.7	143.5	3.6	56.6	12.0	6.5	17.9	39.9	38.9
	Import CIF	182.3	153.1	15.6	96.1	3.8	2.3	12.3	21.1	52.5
	Balance	-6.6	-9.6	-12.0	-39.5	+8.2	+4.2	+5.6	+18.8	-13.6
1955	Export FOB	190.1	145.2	3.0	58.0	8.6	5.0	17.0	49.9	31.4
	Import CIF	192.3	194.7	12.3	83.2	6.3	1.5	13.2	23.2	47.0
	Balance	-2.2	-49.5	-9.3	-25.2	+2.3	+3.5	+ 3.8	+16.7	-15.6

TABLVE VI (Continued)

Year	Trade	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1956	Export FOB	112.5	99.8	3.2	41.8	7.1	5.4	14.7	46.8	27.0
	Import CIF	140.9	117.1	14.7	60.9	4.6	2.7	9.9	20.3	36.8
	Balance	-28.4	-17.7	-11.5	-19.1	+2.5	+2.7	+4.8	+26.5	-9.8
1957	Export FOB	134.1	139.8	4.8	33.4	10.9	6.0	12.2	45.2	10.1
	Import CIF	175.9	114.1	11.2	57.2	2.8	2.3	12.2	29.6	35.3
	Balance	-41.8	+25.7	-7.6	-23.8	+8.1	+3.7	—	+15.6	-25.2
1958	Export FOB	118.7	143.1	3.0	33.4	7.1	3.8	13.7	38.2	13.0
	Import CIF	175.6	106.6	7.1	46.4	3.0	3.5	9.3	20.9	30.8
	Balance	-56.9	+36.5	-4.1	-13.0	+4.1	+0.3	+4.4	+17.3	-17.8
1959	Export FOB	137.6	75.1	2.6	39.5	7.8	4.9	7.3	46.6	2.8
	Import CIF	107.3	117.0	9.1	54.6	2.9	3.9	8.8	20.8	30.5
	Balance	+30.3	-41.9	-6.5	-15.1	+4.9	+1.0	-0.5	+25.8	-27.7

TABLE VI (Continued)

Year	Trade	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1960	Export FOB	162.5	86.4	4.8	30.5	4.7	5.7	8.9	33.4	3.4
	Import CIF	106.6	108.3	6.3	81.9	3.3	3.6	8.6	27.5	28.9
	Balance	+55.9	-21.9	-1.5	-51.7	+1.4	+2.1	+0.3	+5.9	-25.5
1961	Export FOB	100.0	95.2	6.1	34.8	7.5	7.9	9.9	31.5	5.8
	Import CIF	126.0	45.2	10.2	94.5	4.1	4.1	9.8	31.8	34.5
	Balance	-26.0	+50.0	-4.1	-59.7	+3.4	+3.8	+0.1	-0.3	-28.7
1962	Export FOB	141.4	75.8	7.3	39.4	6.1	16.7	10.9	48.8	8.0
	Import CIF	103.2	128.6	12.5	80.5	3.9	6.1	6.0	45.2	34.0
	Balance	+38.2	-52.8	-5.2	-91.1	-2.2	+10.6	+4.9	+3.6	-26.0

TABLE VI (Continued)

Year	Trade	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1963	Export FOB	185.5	76.0	6.0	49.3	8.0	25.9	10.7	49.1	15.0
	Import CIF	101.6	164.9	21.4	120.0	5.2	10.8	8.4	62.0	31.8
	Balance	+83.9	-87.9	-15.4	-70.7	+2.8	+15.1	+ 2.3	-12.9	-16.8
1964	Export FOB	218.4	132.8	10.9	34.5	13.3	34.0	14.0	63.8	15.0
	Import CIF	170.8	168.0	33.1	128.9	8.0	17.6	11.6	59.9	43.3
	Balance	+47.6	-35.2	-22.2	-74.4	+5.3	+17.6	+3.2	+4.9	-34.3
1965	Export FOB	231.1	197.9	16.7	52.5	13.1	36.3	17.5	54.0	15.5
	Import CIF	255.6	190.4	38.3	122.0	8.9	29.6	13.3	80.9	32.0
	Balance	-24.5	+7.0	-21.6	-70.5	+4.2	+6.7	+4.2	-26.9	-17.5
1966	Export FOB	242.7	181.5	29.1	53.5	12.5	56.6	19.9	52.2	26.7
	Import CIF	226.6	167.0	52.0	140.9	8.3	33.6	14.3	91.4	46.0
	Balance	+16.1	+14.5	-26.9	-83.4	+4.2	+23.0	+23.0	-39.2	-19.3

TABLE VI (Continued)

Year	Trade	Argentina	Brazil	Columbia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay
1967	Export FOB	271.4	154.2	18.8	77.4	14.8	47.6	15.6	39.1	17.0
	Import CIF	212.0	171.6	31.9	143.9	12.5	38.2	16.5	93.3	44.1
	Balance	+39.4	-17.4	-13.1	-66.5	2.3	9.4	-0.9	-59.2	-27.1
1968	Export FOB	318.0	186.0	25.3	77.4	19.0	50.0	16.0	43.0	17.0
	Import CIF	239.0	210.0	36.4	143.9	17.0	41.0	17.0	88.0	44.1
	Balance	+79.0	-24.0	-11.1	-66.5	+2.0	+9.0	-1.0	-55.0	-27.1

Source: LAFTA, Serie Estaolistica 1969, op. cit., pp. 7-8 and Doc CEP/Reparido 967, 14 August 1969, p. 67-69.

TABLE VII

PERCENTAGE SHARES IN INTRA-ZONAL TRADE BY COUNTRY: 1946-1968
IMPORTS

Country	1946-1951	1959-1961	1961	1962	1963	1964	1965	1966	1967	1968
Argentina	34.8	31.1	34.9	24.6	19.4	26.5	33.1	28.9	27.5	28.2
Brazil	26.3	24.1	12.5	30.6	31.2	26.0	24.7	21.3	22.9	24.8
Mexico	1.9	1.1	1.2	1.5	2.1	2.7	3.9	4.3	4.9	4.8
Chile	13.9	21.3	26.2	19.2	22.9	19.9	15.8	17.9	18.7	17.0
Columbia	4.9	2.4	2.8	2.9	4.1	5.1	4.9	7.1	4.1	4.3
Peru	4.7	7.3	8.8	10.8	11.8	9.1	10.5	11.7	12.1	11.5
Uruguay	10.4	8.6	9.6	8.1	6.1	7.6	4.2	5.9	5.7	5.2
Ecuador	0.8	0.9	1.1	0.9	0.9	1.2	1.2	1.1	1.6	2.0
Paraguay	2.2	2.6	2.7	1.4	1.6	1.8	1.7	1.8	2.1	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Adopted from LAFTA, Sintesis Mensual (Montevideo, December 1969), p. 601.

TABLE VIII

PERCENTAGE SHARES IN INTRA-ZONAL TRADE BY COUNTRY: 1946-1966

EXPORTS

Country	1946-1951	1959-1961	1961	1962	1963	1964	1965	1966	1967	1968
Argentina	36.5	41.6	33.5	39.9	43.5	39.3	36.4	35.9	40.3	42.3
Brazil	27.4	26.6	31.9	21.4	17.9	23.9	31.1	26.9	22.9	24.7
Mexico	5.8	1.9	2.6	4.7	6.1	6.1	5.7	8.4	7.4	6.6
Chile	9.3	10.8	11.7	11.1	11.6	9.8	8.4	7.9	11.4	10.2
Columbia	1.0	1.4	2.0	2.1	1.4	1.9	2.6	4.3	3.7	3.3
Peru	12.0	11.6	10.6	13.8	11.6	11.5	8.5	7.7	6.3	5.7
Uruguay	3.0	1.4	1.9	2.3	3.5	2.7	2.5	3.9	2.5	2.2
Ecuador	2.6	2.0	2.5	1.7	1.7	2.0	2.1	1.7	2.8	2.5
Paraguay	2.3	2.7	3.3	3.0	2.5	3.7	2.8	2.9	2.3	2.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Adapted from LAFTA, Sintesis Mensual (Montevideo, December 1969), p. 601.

TABLE IX

PERCENTAGE CHANGES IN INTRA-ZONAL

TRADE BY COUNTRY: 1946-1968

IMPORTS AND EXPORTS

Countries	Imports		Exports	
	1946/51-1968	1961-1968	1946/51-1968	1961-1968
Argentina	31	89	74	284
Brazil	53	364	36	95
Mexico	310	900	73	532
Chile	98	52	68	122
Columbia	40	256	396	314
Peru	298	208	-28	36
Uruguay	-20	28	11	193
Ecuador	295	314	49	153
Paraguay	45	73	17	60
Total	61	143	51	151

Source: Adapted from LAFTA, Sintesis Mensual (Montevideo, December 1969) p. 601.

TABLE X

CUMULATIVE TOTAL CONCESSION GRANTED BY THE CONTRACTING PARTIES IN

THEIR NATIONAL LISTS 1961-1968

	1961	%	1962	%	1963	%	1964	%	1965	%	1966	%	1967	%	1968	%
Argentina	414	12.7	1072	14.1	1280	15.5	1363	16.1	1537	17.0	1621	17.3	1717	17.6	1839	17.9
Brazil	619	19.0	1250	16.5	1312	15.9	1352	16.0	1511	16.7	1603	17.1	1710	17.5	1802	17.6
Columbia	268	8.3	619	8.1	704	8.5	714	8.4	745	8.2	751	8.0	766	7.8	777	7.6
Chile	343	10.6	833	11.0	864	10.5	872	10.3	894	9.9	917	9.7	959	9.4	970	9.5
Ecuador	——	——	1714	22.6	1677	20.3	1680	19.8	1685	18.6	1689	18.0	1697	17.3	1720	16.8
Mexico	288	8.9	607	8.0	727	8.8	802	9.5	937	10.4	1030	11.0	1090	11.2	1173	11.4
Paraguay	520	16.0	589	7.8	655	8.1	663	7.8	677	7.5	691	7.3	691	7.1	696	6.8
Peru	227	7.0	299	3.9	355	4.3	364	4.3	392	4.3	402	4.3	424	4.3	470	4.6
Uruguay	567	17.5	610	8.0	664	8.1	664	7.8	676	7.4	689	7.3	716	7.3	784	7.6
Total	3246	100.0	7593	100.0	8284	100.0	8474	100.0	9054	100.1	9393	100.0	9770	100.0	10231	100.0

Source: Comercio Exterior, (Mexico, September 1969), p. 6.

TABLE XI

EVOLUTION OF INTRAZONAL IMPORTS OF PRODUCTS ON WHICH CONCESSIONS HAVE BEEN

NEGOTIATED AND NOT ENGOTIATED

Year	Country	Negotiated products $US (1,000)	Negotiated products Percent total	Products not negotiated $US (1,000)	Products not negotiated Percent total	Total $US (1,000)	Total Percent global	Extrazonal imports $US (1,000)	Extrazonal imports Percent global	Global imports $US (1,000)
	Argentina	81,349.7	79	21,834.7	21	103,184.4	8	1,253,309.4	92	1,356,493.8
1	Brazil	111,974.8	87	16,619.7	13	128,594.5	9	1,346,060.4	91	1,474,654.9
	Colombia	5,794.0	46	6,728.0	54	12,522.0	2	527,821.0	98	540,343.0
9	Chile	55,110.1	68	25,428.9	32	80,530.0	16	431,301.0	84	511,840.0
	Ecuador	—	—	3,870.0	100	3,870.0	4	93.277.0	96	97,147.0
6	Mexico	4,140.2	68	1,964.8	32	6,105.0	1	1,136,895.0	99	1,143,000.0
	Paraguay	1,742.1	29	4,307.9	71	6,049.0	15	33,985.0	85	40,034.0
2	Peru	33,130.0	73	12,056.0	27	45,186.0	8	491,693.0	92	436,879.0
	Uruguay	26,412.1	78	7,623.9	22	34,036.0	15	196,448.0	85	230,484.0
	Total	319,653.0	76	100,433.9	24	420,086.9	7	5,510,789.8	93	5,930,875.7

TABLE XI (Continued)

Year	Country	Negotiated products $US (1,000)	Negotiated products Percent total	Products not negotiated $US (1,000)	Products not negotiated Percent total	Total $US (1,000)	Total Percent global	Extrazonal imports $US (1,000)	Extrazonal imports Percent global	Global imports $US (1,000)
	Argentina	92,502.1	91	9,117.9	9	101,620.0	10	879,048.9	90	980,668.9
1	Brazil	147,304.0	90	16,617.3	10	163,921.3	11	1,322,926.7	89	1,486.848.0
	Colombia	19,547.2	91	1,844.8	9	21,392.0	4	484,640.0	96	506,032.0
9	Chile	93,594.6	78	26,432.4	22	120,027.0	19	517,496.0	81	637,523.0
	Ecuador	4,003.0	77	1,169.0	23	5,172.0	4	123,739.0	96	128,911.0
6	Mexico	9,066.9	84	1,769.1	16	10,836.0	1	1,227,834.0	99	1,238,670.0
	Paraguay	1,847.8	22	6,577.2	78	8,425.0	26	24,179.0	74	32,604.0
3	Peru	54,139.4	87	7,860.6	13	62,000.0	11	495,400.0	89	557,400.0
	Uruguay	24,230.4	76	7,520.6	24	31,751.0	18	145,148.0	82	176,899.0
	Total	446,235.4	85	78,908.9	15	525,144.3	9	5,220,411.6	91	5,745,555.9

TABLE XI (Continued)

Year	Country	Negotiated products $US (1,000)	Negotiated products Percent total	Products not negotiated $US (1,000)	Products not negotiated Percent total	Total $US (1,000)	Total Percent global	Extrazonal imports $US (1,000)	Extrazonal imports Percent global	Global imports $US (1,000)
	Argentina	157,923.8	93	12,738.7	7	170,662.5	16	906,503.7	84	1,077,166.2
1	Brazil	161,500.3	96	6,460.5	4	167,960.8	13	1,095,489.8	87	1,263,450.6
	Colombia	31,139.0	94	1,960.1	6	33,100.0	6	553,200.0	94	586,300.0
9	Chile	116,093.0	90	12,888.0	10	128,888.0	21	479,920.0	79	608,808.0
	Ecuador	6,453.6	80	1,573.4	20	8,027.0	6	130,034.0	94	138,061.0
6	Mexico	14,967.0	86	2,354.0	14	17,321.0	1	1,475,629.0	99	1,492,950.0
	Paraguay	2,934.8	25	8,624.2	75	11,559.0	29	28,262.0	71	39,821.0
4	Peru	48,958.1	83	9,917.9	17	58,876.0	10	521,124.0	90	580,000.0
	Uruguay	34,987.5	71	14,312.0	29	49,300.0	25	145,100.0	75	194,400.0
	Total	574,958.0	89	70,735.8	11	645,693.8	11	5,335,262.5	89	5,980,956.8

TABLE XI (Continued)

Year	Country	Negotiated products $US (1,000)	Negotiated products Percent total	Products not negotiated q $US (1,000)	Products not negotiated q Percent total	Total $US (1,000)	Total Percent global	Extrazonal imports $US (1,000)	Extrazonal imports Percent global	Global imports $US (1,000)
	Argentina	232,329.6	91	23,370.4	9	255,700.0	21	942,700.0	79	1,198,400.0
1	Brazil	182,261.4	96	8,149.6	4	190,411.0	17	906,012.0	83	1,096,423.0
	Colombia	36,001.1	94	2,353.9	6	38,355.0	8	417,190.0	92	455,545.0
9	Chile	113,599.6	93	8,000.4	7	121,600.0	20	482,000.0	80	603,600.0
	Ecuador	6,453.6	80	1,573.4	20	8,027.0	6	130,034.0	94	138,061.0
6	Mexico	21,097.3	71	8,576.7	29	29,674.0	2	1,530,547.0	98	1,560,221.0
	Paraguay	2,503.2	22	8,887.8	78	11,391.0	22	40,274.0	78	51,665.0
5	Peru	62,791.3	78	18,108.7	22	80,900.0	11	649.000.0	89	729,900.0
	Uruguay	26,349.8	82	5,733.2	18	32,083.0	27	118,666.0	73	150,749.0
	Total	683,386.9	89	84,754.1	11	768,141.0	13	5,216,423.0	87	5,984,564.0

TABLE XI (Continued)

Year	Country	Negotiated products $US (1,000)	Negotiated products Percent total	Products not negotiated $US (1,000)	Products not negotiated Percent total	Total $US (1,000)	Total Percent global	Extrazonal imports $US (1,000)	Extrazonal imports Percent global	Global imports $US (1,000)
	Argentina					226,674.	20	897,632.0	80	1,124,306.0
	Brazil					167,043	11	1,329,172.0	89	1,496,215.0
1	Colombia					56,029	8	618,236.0	92	674,265.0
	Chile					123,912	18	561,376.0	82	685,288.0
9	Ecuador					8,349	5	163,566.0	95	171,915.0
	Mexico	NO DATA EXIST				33,693	2	1,571,467.0	98	1,605,160.0
6	Paraguay					14,317	24	43,672.0	76	57,989.0
	Peru					91,481	11	125,431.0	89	816,912.0
6	Uruguay					46,030	28	118,212.0	72	164.242.0
	Total					767,528	11	6,928,764.0	89	6,796,292.0

Source: LAFTA (Cómite Ejecutivo Permanente), Sumario Comercio Intrazonal Generado en el Programa de Liberación del Tratado de Montevideo, CEP/Repartido 856 (Montevideo: July 5, 1967),pp. 21-22.

APPENDIX II

LIST OF ABBREVIATIONS

CADI	Commision Advision Dessarollo Industrial
CEMLA	Centio de cstudios Monetarios Latino-americanos
ECLA	United Nations, Economic Commission for Latin America
EEC	European Economic Community
EFTA	European Free Trade Association
IMF	International Monetary Fund
LAFTA	Latin American Free Trade Association
OAS	Organization of American States
UNCTAD	United Nations Conference on Trade and Development

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